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Separate sections

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The price of truth and justice

World Business Newspaper http://www.FT.com FRIDAY DECEMBER 6 1996

GM seeks sale of Hughes division as merger fails

General Motors is to sell the defence and aerospace division of its subsidiary Hughes Electronics after the failure of merger talks between Hughes and its aerospace competitor Raytheon. US defence contractors Northrop Grumman and McDonnell Douglas, which are looking for defence electronics businesses, are potential bidders for the division, which is likely to fetch between $8bn and $10bn. Page 15; Lex, Page 14

Suu Kyi released after protest

Burmese pro-democracy leader Aung San Suu Kyi (left) was released from confinement at her Rangoon home after complaining she had been held illegally. She joined about 200 supporters in a ceremony marking Burma's National Day and urged the Association of South East Asian Nations not to grant Burma full membership as long as the military State Law and Order Restoration Council was in power.

German jobless at fresh record: Germany's unemployment level reached another postwar record in November after a larger-than-expected monthly increase highlighted the fitful character of the country's economic recovery. Page 2; Editorial Comment, Page 13

Drugs industry loses imports fight: The pharmaceutical industry lost its European Court battle to stop cheap unpatented drugs from Spain and Portugal entering other European Union countries. Page 3

News Corp in Japanese music venture: Rupert Murdoch's News Corporation is to join forces with Japanese record producer Tetsuya Komuro to form a music and multimedia company. The move will give News Corp a stake in one of the music market's fastest growing areas. Page 15

Profits warning hits Reed Elsevier: A warning from Reed Elsevier that the strength of sterling was hurting profits contributed to a 5 per cent fall in the shares of the Anglo-Dutch publishing and information group. Page 15

Companies ignore Emu costs: Most European companies have not yet estimated the costs of adapting to a single currency, and only one in 12 has budgeted for it. Page 2

Italian inflation lowest since 1969: Italy's inflation fell to an annualised 2.6 per cent, a level not touched since 1969, official figures show. Page 2

Hague to cut KLM stake: The Dutch government is to cut its stake in KLM to 25 per cent from 38.2 per cent by selling a parcel of shares back to the airline in a deal worth up to Fl1bn ($633m). Page 15; Lex, Page 14

Farmers fail to move Greek PM: Greek prime minister Costas Simitis told protesting farmers the government would make no concessions on debts or taxes. Protests spread to southern Greece and could disrupt supplies to the Athens area. Page 3

De Benedetti sells Cofir stake: Cerus, the French group owned by Italian financier Carlo De Benedetti, sold its 48 per cent stake in Cofir for Pta16.2bn ($124m), paving the way for the Madrid-based holding company to restructure itself as a hotels and wines group. Page 15

British Gas changes contracts: British Gas took the first step to end its bitter row with North Sea gas producers over the future of "take-or-pay" gas contracts by renegotiating agreements with British Petroleum, one of its largest suppliers. Page 14 and Lex

Barings bonus claim fails: Mary Walz, former head of equity derivatives trading at Barings, the collapsed UK merchant banking group, lost her claim to be paid a £500,000 ($820,000) bonus she alleged was promised to her. Page 8

John Vassall dies: John Vassall, who spied for Russia's KGB for seven years, has died in London, aged 71, it was revealed yesterday. Vassall, who was jailed in 1962, changed his name to John Phillips on his release 10 years later.

FT.com: the FT web site provides online news, comment and analysis at http://www.FT.com

■ STOCK MARKET INDICES

New York lunchtime		
Dow Jones Ind Av	6,417.72	(-5.22)
NASDAQ Composite	1,299.46	(+2.44)
Europe and Far East		
CAC40	2,292.50	(-16.15)
DAX	2,909.91	(+43.84)
FTSE 100	4,051.2	(+6.0)
Nikkei	20,943.90	(+283.99)

■ US LUNCHTIME RATES

Federal Funds	5⅜%
3-mth Treas Bills: Yld	5.01%
Long Bond	100⅛
Yield	6.40%

■ OTHER RATES

UK: 3-mo Interbank	6⅜%	(same)
UK: 10 yr Gilt	99¾	(100⅛)
France: 10 yr OAT	105.83	(106.44)
Germany: 10 yr Bund	103.2	(104.17)
Japan: 10 yr JGB	104.8113	(104.7349)

■ NORTH SEA OIL (Argus)

Brent Dated	$22.47	(24.24)

■ GOLD

New York: Comex		
Feb	$373.0	(372.5)
London:		
close	$370.0	(369.65)

■ DOLLAR

New York: lunchtime		
£	1.6275	
DM	1.5515	
FFr	5.238	
SFr	1.313	
Y	112.495	
London:		
£	1.6275	(1.6385)
DM	1.5547	(1.5627)
FFr	5.2522	(5.2771)
SFr	1.3174	(1.3229)
Y	112.54	(113.17)
Tokyo close:	Y 112.85	

■ STERLING

DM	2.5302	(2.5605)

Albania	LEK 275	Gibraltar	£0.75	Lithuania	Lit 18.00	Qatar	QR13.00
Austria	Sch37	Greece	Dr400	Lux	LFr75	S.Arabia	SR13
Bahrain	Din1.300	Hong Kong	HK$20	Malta	Lm0.70	Singapore	S$4.30
Belgium	BFr75	Hungary	Ft270	Morocco	MDh18	Slovak Rp	Sk75
Cyprus	C£1.30	Iceland	IKr260	Neth	Fl 4.75	S. Africa	R12.00
Czech Rp	Kč70	India	Rs75	Nigeria	Naira125	Spain	Pta250
Denmark	DKr20	Israel	Shk9.00	Norway	NKr22.00	Sweden	SKr20
Egypt	E£5.00	Italy	L3200	Oman	OR1.75	Switz	SFr3.70
Estonia	EKr 28	Japan	Y500	Pakistan	Rs50	Syria	S£80.00
Finland	FM18.00	Jordan	JD1.75	Poland	Zł6.00	Tunisia	Din2.000
France	FFr17.00	Kuwait	Fils.750	Portugal (mainland)		Turkey	L130,000
Germany	DM4.00	Lebanon	LL3500		Esc265	UAE	Dh13.00

S Korea warns of threat to relations after Thomson sale suspension

Paris plea to foreign investors

By David Owen and Andrew Jack in Paris and John Burton in Seoul

Mr Jean Arthuis, the French finance minister, has made a strong appeal to foreign investors not to shun France following the government's surprise decision to suspend the sale of the Thomson electronics giant.

"We must not leave the slightest shadow of a doubt. France needs foreign investors," he said in an interview with the Financial Times.

Mr Arthuis was speaking after an independent commission told the government this week it could not approve some aspects of the planned transfer of the Thomson Multimedia consumer electronics business by Lagardère, the government's preferred bidder for the Thomson group, to Daewoo Electronics of South Korea.

His appeal came as the South Korean government warned of a possible deterioration in relations with France following the suspension of the sale.

As the Korean domestic media accused the French of racism in blocking the deal, Seoul said it would determine whether the French decision amounted to discrimination against South Korea. The Korean government will seek clarification about the French decision through its embassy in Paris.

"The candidates did not lack quality or honour. Daewoo's honour was not in question. The candidates in no way failed in their obligations," Mr Arthuis said.

The privatisation commission's reservations concerned "the enforceability of the detailed arrangements between Lagardère and Daewoo. The procedure was not criticised."

In a separate radio interview, Mr Arthuis said he hoped the privatisation could be completed "before the spring". He hoped the group could be sold in one piece, "but we must examine all the hypotheses . . . We must not exclude anything". However, he indicated some form of private placement was necessary.

The suspension has prompted suggestions that the government might try to sell the money-draining Multimedia and the Thomson-CSF defence division separately, or it could opt to dispose of the entire group more gradually.

Mr Serge Tchuruk, chairman of Alcatel Alsthom, the telecoms and engineering group that lost out to Lagardère in the original bidding, has argued that the sale of Thomson "by successive fractions of its capital" could be more profitable for the French state than trying to sell the whole group in one step.

The privatisation commission based its decision, explained in a seven-page statement, on concerns that pledges given by Daewoo on investment and job creation were unenforceable, and that a complete divestment of Multimedia would remove any prospect of the state getting a return on its investment in the group's technological expertise.

Daewoo said it was still committed to acquiring Thomson Multimedia and called the decision to suspend the sale "very regrettable".

● The European Commission said last night that it had received a letter from Philips, the Dutch consumer electronics group, complaining about French government proposals to give an FFr11bn ($2.1bn) capital injection to Thomson to reduce its FFr25bn debt.

Newmont in $2bn bid for gold rival Santa Fe

By Kenneth Gooding, Mining Correspondent

Newmont Mining, already the biggest gold producer in the US, yesterday surprised the mining industry by making an unsolicited bid for Santa Fe Pacific Gold which Newmont said was worth $2bn.

Newmont said the combined group would be the largest and potentially the most efficient gold producer in North America, with reserves of more than 47m troy ounces. The merged group would produce 3.5m ounces of gold next year and 3.75m in 1998 at cash costs of less than $215 an ounce.

Analysts pointed out this output would put the Newmont-Santa Fe combination neck and neck with Barrick Gold of Canada, at present the biggest North American gold company. Barrick is widely forecast to produce 3.4m ounces in 1997.

The Newmont bid comes at a time of hectic takeover activity in the mining industry. Placer Dome, one of its big North American rivals, has launched bids both for Highlands Gold, which has operations in Papua New Guinea, and for the rest of Placer Pacific, its Australian subsidiary.

Barrick Gold recently acquired Arequipa, which has a gold project in Peru, and at present is in discussions about taking a substantial interest in the Busang gold deposit owned by Bre-X, a small Canadian company.

Newmont said it had been in talks with Santa Fe "from time to time" but refused to elaborate.

Santa Fe, the sixth-largest North American gold group in production terms, acknowledged it had received the Newmont bid but said: "There is no further comment at the present time."

Newmont, after 30 years of producing gold only on the Carlin Trend in Nevada, has expanded its horizons, is rapidly growing worldwide and has had spectacular success

Continued on Page 14
Commodities, Page 26

Irish pave way for smooth EU summit

By Lionel Barber in Brussels

The European Union's Irish presidency yesterday laid the groundwork for a trouble-free summit in Dublin next week with a modest outline for revision of the Maastricht treaty.

The draft text skirts sensitive issues such as the balance of power between small and larger countries, and avoids singling out Britain as the chief obstacle to an agreement by the self-imposed deadline of June 1997 in Amsterdam.

However, Mr Jacques Santer, president of the European Commission, warned that "the hour of truth" was approaching for member states in the EU's intergovernmental conference (IGC), especially if they intended to reform the EU's decision-making to cope with the planned expansion to central and eastern Europe.

He said all 15 member states had to decide whether to support the Union as a political project going back to the 1957 Treaty of Rome, or as a vast free-trade zone.

Mr Santer was speaking in Brussels as the Irish presidency unveiled a 140-page draft treaty text that features proposals for an EU-wide area guaranteeing free movement of EU citizens among member states, rather than the present hotchpotch of border controls.

The new area of "freedom, security and justice" would be buttressed by closer co-operation on visas, asylum and action against illegal immigration, drug traffickers, organised crime and terrorism.

The programme is strongly supported by Germany, which has an open border to the east, as well as smaller countries such as Ireland, which believe it will strike a popular chord.

But after protests from sovereignty-conscious countries, notably Britain, the Irish agreed to soften the original commitment to achieve full free movement of people by January 1, 2001.

The Irish text also glides over contentious items such as extension of majority voting, although Britain's blanket opposition means it is isolated on this issue.

Mr John Bruton, Ireland's prime minister, said next week's summit in Dublin had to deliver a "strong message" that the EU was advancing in all key areas. He said there would be agreement in Dublin on the legal framework for the single currency as well as on a new exchange rate mechanism to link the currency to non-Emu participants.

Sir Stephen Wall, UK ambassador to the EU, warned yesterday that Britain would block the conclusion of the IGC unless it achieved satisfaction over two issues: quota-hopping by Spanish fishermen and revision of health and safety laws.

Irish allow for EU horsetrading, Page 2

Mrs Madeleine Albright (above), US ambassador to the UN, has been nominated by President Bill Clinton to be the country's first woman secretary of state. He has also chosen Mr William Cohen, the outgoing Republican senator from Maine, as secretary of defence. Report, Page 14
Picture: AP

Chinese in Sweden lose money in forex scheme

By Clay Harris and Norma Cohen in London and Dawell Roberts Tien in Stockholm

Ethnic Chinese private investors in Sweden have lost millions of kronor through Fairbank, a currency trading operation run by a man whose previous foreign exchange company is being probed by Britain's Serious Fraud Office.

Fairbank is the latest example of high-risk currency trading schemes which have cost investors across Europe millions of dollars and confounded efforts by national regulators to bring their activities under control.

Run by Mr Dennis Cheung, a 38-year-old UK citizen, Fairbank operates openly in Stockholm, Gothenburg and Malmö even though it is not authorised to trade foreign exchange in Sweden. Mr Cheung's former company, Pagoda, is under investigation in the UK over the alleged misuse of $7.8m in investors' funds. Most of its customers were also ethnic Chinese.

Mr Gent Jansson, a lawyer at the Riksbank, Sweden's central bank, said: "It is a criminal act to provide currency trading services without permission." The Riksbank had no power of investigation to determine whether authorisation was required, he said.

Trader played China card Page 10

The Riksbank had contacted the police but learned they were already gathering information about Fairbank. The opening of an official investigation awaits a decision by a prosecutor in Sweden's Serious Economic Crimes Squad.

Fairbank has close links with Currency Exchange Services (CES), which operates from the same office in London's Soho district formerly used by Pagoda.

According to former employees, Fairbank places its trades by a "hotline" to London. Mr Kenneth Yeung, a CES director, said his company provided "indicated prices" to Fairbank, being paid $5 per transaction. It also acted as agent for Fairbank and kept its records.

Mr Yeung said it was a "matter of coincidence rather than anything else" that CES occupied Pagoda's old premises. Swedish company records list Mr Yeung as the "alternate director" of Currency Exchange Stockholm, the official name of Fairbank.

CES has applied to the UK's Securities and Futures Authority for authorisation to arrange "rolling spot" foreign exchange trades. These involve rolled-over forward contracts of seven days or less.

Few of Fairbank's investors have come forward to complain. A significant portion of the money invested was probably undeclared income.

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EU acts on minimum energy tax rates

By Leyla Boulton, Environment Correspondent

Proposals to extend minimum tax rates to all forms of energy in the European Union are being prepared in Brussels as a substitute for the European Commission's ill-fated carbon tax.

A draft directive, which is likely to be submitted to EU governments by the Commission early next year, would for the first time set minimum tax rates for coal, natural gas and electricity.

It also recommends that the EU agree in principle to a tax on aviation fuel, pending amendments to the international agreements which at present prohibit such taxation.

The Commission is expected to propose the new minimum rates together with a rise in existing EU thresholds for petrol, diesel, heating fuel and heavy fuel oil.

The new minimum rate per tonne of petrol for instance, would rise from Ecu337 to Ecu450, representing an 17 per cent increase in real terms.

The aim of the plan drafted by the indirect taxation directorate is twofold: further to harmonise taxes as EU energy markets are liberalised and to combat environmental threats from the consumption of fossil fuels. Chief of these is global warming, caused by carbon and other greenhouse gas emissions.

Though the new minima would be modest, they would set a framework making it easier for governments to ratchet up energy taxes over time.

The plan is likely to arouse fierce controversy as taxation is one of the most jealously guarded preserves of national governments.

But officials said that setting minimum rates across the board would enable individual states to introduce national carbon taxes – intended to combat global warming – without forcing them on other states which were less keen on the idea.

If the proposal is approved by EU ministers, the Commission is likely to withdraw its vexed proposal for a unified EU carbon tax. The Commission's attempt to introduce a harmonised EU carbon tax foundered on the resistance in principle of the UK, while other countries have worried about its impact on their international competitiveness.

Cefic, the European chemical industry association, recently joined forces with other energy-intensive industries to warn the Commission against pursuing carbon tax substitutes to the detriment of their international competitiveness.

However, in an attempt to pre-empt such protests, Commission officials have also incorporated a series of concessions to industry in the draft directive.

These include exemptions for businesses that are energy-intensive, or adopt energy conservation measures, or generate electricity from renewable sources.

A report accompanying the draft directive argues that the main victim of the proposals would be energy imports from outside the EU, but that the bloc's international competitiveness would be "practically untouched".

This is because governments would be able to offset the tax increases with cuts in payroll taxes, thus keeping costs unchanged for business, and even promoting employment. Or they could use the extra revenues to reduce budget deficits, contributing to a lowering of interest rates that would also benefit their economies.

Inflationary impacts within the EU would also be mitigated by increased energy saving by consumers.

Taxes on energy products in the EU: new minimum rates

	Petrol	Lead-free petrol	Diesel	Heating oil	Heavy fuel	Coal	Natural gas	Electricity (Industrial consumption)	Electricity (Household consumption)	Electricity (Nuclear production)
	(Ecu per 1,000 litres consumed)				(Ecu per 1,000 kg consumed)			(Ecu per Mw hours)		
Existing EU minimum rates	337	287	245	18	13	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Proposed minimum rates	450	450	343	21	18	5	7	1	1	1
Existing rates in selected countries										
Denmark	598	448	314	241	272	[illegible]	32	6.9	63.1	[illegible]
France	596	556	334	75	24	–	11	0.6% of price	8.5% of price	–
Germany	579	526	334	[illegible]	26	[illegible]	21	[illegible]	[illegible]	–
Italy	526	484	354	354	43	–	6-122	1.9	1.9	
Spain	400	367	267	[illegible]	13	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
UK	472	414	414	28	22	–	–	–	–	–

Source: European Commission Directorate-General for Customs and Taxation

German jobless at fresh post-war record

By Ralph Atkins in Bonn

Germany's unemployment level reached another post-war record in November after a larger-than-expected monthly increase highlighted the fitful character of the country's economic recovery.

Seasonally adjusted unemployment rose 50,000 to 4.1m last month, the federal labour office in Nuremberg said yesterday. Mr Bernhard Jagoda, federal labour office president, said: "Economic recovery and growth have so far not had the effect of preventing the unfavourable development of the labour market."

The figures came as unions and employers in electrical and metal industries reached a surprise deal in Lower Saxony which will override the intentions of recent legislation and retain sick pay levels at 100 per cent of wages.

The deal could provide a model for settlements in other regions.

Although employers achieved some savings in total employment bills, the settlement may prove a setback for those in the ruling coalition of Chancellor Helmut Kohl seeking to boost the country's competitiveness and reduce unemployment through lower labour costs.

The unemployment figures followed other statistics this week which suggested the German economy, although growing, is not on a steady recovery path.

Seasonally adjusted gross domestic product in the three months to September was 1 per cent higher than the previous quarter, but figures for industrial production in October showed a steep decline compared with September. Manufacturing orders rose in October but not enough to offset a fall in September.

Unemployment rose in all regions of Germany last month. The seasonally adjusted number of unemployed in west Germany increased by 34,000 to 2.924m and in east Germany by 17,000 to 1.176m.

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Job creation in the firing line

Public spending cuts threaten 'make work' schemes that have benefited the unemployed in eastern Germany, writes Lucy Smy

"Our coffee is better than yours!" shouts Mr Bernd Froertzek from the train to builders on the platform slurping from a Thermos.

One of 162 workers serving coffee, tea and snacks from trolleys on Berlin's overground S-bahn system, Mr Froertzek has picked up the importance of cheap advertising if you work for a job creation scheme on a one-year contract where the funds are under threat.

It is estimated that eastern Germany's unadjusted unemployment level of 15 per cent would rise to 23 per cent without job creation measures, but the government is committed to cutting 2.5 per cent from next year's public spending.

With German unemployment topping 4m, according to yesterday's figures, the government faced tough questions last week in the parliamentary budget debate about its intentions towards jobless in the east.

The majority of those on job creation schemes work, like Mr Froertzek, in *Arbeitsbeschaffungsmassnahmen* (ABMs), the all too honestly named "make work" programmes. Last year, 205,800 people in the east found places on these schemes. They work in special projects doing such things as gardening, running kindergartens, and looking after the elderly. To receive funding the schemes have to be classified as extras, services that would not otherwise be provided.

Workers on the alternative 249(h) schemes, so called after the paragraph in the law that brought them into being, work in real companies, however. The difference between the two is that the labour ministry pays the company the equivalent of the worker's unemployment benefit, leaving the company to make up the difference. The 249(h) scheme is cheaper to run, explaining its swift growth after introduction in 1993. In 1995, 106,500 people were employed in this way, but for only a third of the cost of those on ABM schemes.

As part of Germany's drive to cut its public spending deficit to meet Maastricht criteria, the government has proposed cuts in funding of DM17bn ($10.8bn) spread over four years and these cuts are mainly to be concentrated in active employment support programmes.

Government supporters say the reduction in funding will be accompanied by changes to legislation minimising the actual cuts in the number of job creation places by reducing instead the payment workers will receive and by increasing measures such as 249(h).

Mr Wolfgang Vogt MP, head of the Christian Democratic Employers Association, estimates that the total number of job creation places will fall by only 7,000. However, an opposition SPD member, Mr Ottmar Schreiner, says: "In real terms [the cuts mean] that about two thirds of all funded activities will be cut by the year 2000.... In this situation the proposed cuts in the active employment support programme lack all justification."

In theory, experience on an ABM scheme should ease the path of workers either to 249(h) places in companies or into real jobs. The reality for many of eastern Germany's long-term unemployed is different. But it is estimated that less than 20 per cent of those on the job creation programmes go on to get real jobs. Alternating one year on an ABM scheme with one year of unemployment is as common as it is demoralising, creating an expensive tier of society in a second labour market who will never make it into real jobs.

S-presso, the coffee and snacks ABM which employs Mr Froertzek, planned to employ 165 people, four of them social workers. Rules on participants say they must have been unemployed for more than a year – S-presso has one worker who had been unemployed since 1982.

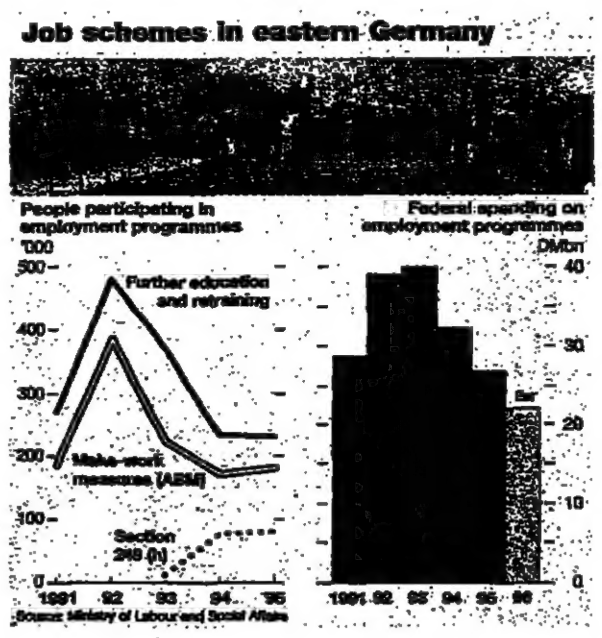
ABM workers are also only guaranteed work for a year, after which they may have to give up their place to someone else who has been unemployed for longer than a year.

While the S-presso project, which has been running since March, is popular with travellers it could never become a commercial concern because of the cost of labour, says Mr Arik Komets, its head of personnel. He is deeply concerned about the prospective funding cuts. Supported by the local labour office and the Berlin senate, S-presso is already under pressure. Last month, the senate confirmed there would be enough money for the project to continue until March; thereafter things are uncertain.

As Mr Komets says: "We have people here who would have great difficulty ever finding adequate employment in a free market economy."

Editorial Comment, Page 13

Job schemes in eastern Germany



Source: Ministry of Labour and Social Affairs

Italy welcomes falling inflation

By Robert Graham in Rome

Italy's inflation has come down to an annualised 2.6 per cent, a level not touched since 1969. But good news on inflation is balanced by concern over outstanding wage deals.

The monthly increase in consumer prices was 0.3 per cent in November, reported Istat, the official statistics institute. If tobacco were to be included in the basket of items, in line with European Union policy, the annualised rate would be 2.7 per cent.

These figures were widely expected after preliminary data released last month on the trend in Italy's big cities. Nevertheless, they were welcomed by the government as evidence of the soundness of its economic policies.

However, trade unions were cautious. A spokesman for the CGIL, the largest trade union confederation, said: "The fall in prices is the result of an alarming drop in demand; and this is a clear signal of recession."

The government is concerned that part of the fall in inflation is attributable to depressed domestic demand. Mr Romano Prodi, the prime minister, said: "The decline in inflation is as yet by no means sufficient to ensure our economic recovery: we also need the cost of money to come down."

Prices have fallen steadily over the past 12 months apart from minor blips in April and September. The government had anticipated year-end inflation would be running at 3 per cent and has fixed a 1997 target of 2.5 per cent.

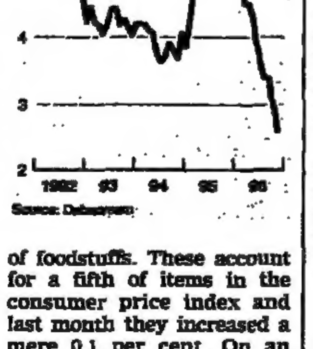
Last month an important element in the continued fall was a decline in the impact of foodstuffs. These account for a fifth of items in the consumer price index and last month they increased a mere 0.1 per cent. On an annualised basis the biggest pressure on prices comes from housing, fuel, electricity and water, which are increasing at 4.9 per cent.

However, the Bank of Italy is also concerned about potential inflationary pressures from wages – an anxiety that has been holding back a further cut in interest rates. Negotiations over a key new wage contract for 1.6m engineering workers are stalled. But if the unions win concessions this would have an immediate impact on other pending wage deals, since engineering wages have always been regarded as the benchmark for other sectors.

The main sticking point is a demand by the engineering unions to recover a substantial amount of lost earnings eroded by inflation since 1993.

This, they claim, is due under a wages and productivity agreement signed by the government, employers and unions in 1993.

Italian inflation



Source: Datastream

Irish allow for usual EU horsetrading

The revision of Maastricht has been labelled 'mission impossible' writes Lionel Barber

"Mission impossible" is how one senior European Union diplomat described the task of revising the Maastricht treaty yesterday. By that yardstick, the Irish presidency's draft text is no mean achievement.

The 140-page document is readable, well-organised, and cautious in scope, with the exception of proposals for creating a common area of "freedom, security and justice" among the 15 member states.

The paper is not a treaty: it is intended to serve as a basis for further negotiation at the Inter-Governmental Conference.

One look at the accompanying Irish commentary underlines how difficult it will be to meet the self-imposed deadline of a final deal at the EU summit in Amsterdam next June.

The document makes no attempt to draw up treaty language covering three sensitive items in the IGC: the balance of power between big and small member states, including the size of the European Commission; the extension of qualified majority voting; and the question of "flexibility" which would allow countries to co-operate more closely in specific areas without being held back by others.

The Irish share the general view that these questions can only be settled in last-minute horsetrading. Their focus, therefore, comes down to four areas where common interests – if not necessarily common approaches – can be identified.

- An area of freedom, security and justice. The presidency suggests new treaty language covering the free movement of people, asylum and immigration, as well as strengthened co-operation between governments and national police forces to tackle organised crime, terrorism and drug traffickers.

The text proposes setting a target date for guaranteeing the free movement of people within this new European space, possibly by January 1 2001. But member states disagree on whether to incorporate the soon-to-be-expanded Schengen accord on freedom of movement among seven member states into the full EU treaty.

- The Union and its citizens. The highlight is a "Jobs Chapter" which calls for the promotion of "a high level of employment", common guidelines on employment, and a new committee of Brussels-based civil servants monitoring the policy.

The text also proposes making sustainable development a treaty goal to strengthening environmental policy.

- Foreign policy. The treaty text calls for a limited extension of the European Commission's authority in trade negotiations covering services, intellectual property, and direct foreign investment. It also calls for "closer relations" between the EU and the Western European Union, its embryonic defence arm, and for an incorporation of the "Petersburg tasks" covering humanitarian aid and peacekeeping in the treaty. Military and defence decisions would still be made by unanimity.

In addition, the Irish think that the Union should be endowed with a "legal personality" which would allow the rotating EU presidency to negotiate agreements on behalf of the rest of the members, subject to unanimous authorisation and approval. The idea is to make it easier for the Union to be an external actor beyond trade matters.

- Institutions. The report says that it is desirable to strengthen the European Parliament's role as a co-legislator. Legislative decision-making should be reduced to three processes.

One look at the accompanying Irish commentary underlines how difficult it will be to meet the self-imposed deadline of a final deal at the European Union summit in Amsterdam next June

EUROPEAN NEWS DIGEST

Aid warning for Bosnia

International donors yesterday warned Bosnia's leaders that economic and security assistance hinged on their stricter compliance with security, human rights and other provisions of the Dayton peace accords.

More than 50 governments and institutions at a peace implementation conference in London said Bosnia's mutually suspicious, ethnically based authorities should assume the main responsibility for improving their citizens' security and civil rights. However, the conference made few institutional changes other than a limited strengthening of the investigative powers of the 1,700-strong international police taskforce.

The conference was overshadowed by continuing anti-government demonstrations in Belgrade. But attempts by the US and others to add to the final document a toughly worded statement criticising the annulment of elections and closure of independent media by President Slobodan Milosevic of Serbia were opposed by Russia.

Mr Milosevic yesterday allowed Belgrade's leading independent radio station, B92, back on air and orchestrated a request by the electoral commission for judicial review of a court decision which deprived the opposition of seats won in local elections last month. It was the annulment of those opposition victories which sparked more than two weeks of street protests. *Laura Silber and Anthony Robinson, London*

Bundesbank eases repo rules

The Bundesbank yesterday sought to enhance Germany's attraction as a financial centre by dropping, from January, minimum reserve requirements on securities repurchase (repo) deals. These are agreements by banks to sell and then repurchase government bonds. The move, which was expected, followed complaints by banks that a large volume of such dealings in German securities had shifted to London because of the reserve rules.

The central bank's action was welcomed by Mr Theo Waigel, the finance minister, who said it brought German reserve instruments into line with competitive conditions in international capital markets. The German banking association said the decision would strengthen Germany's position as a financial centre. Repo business would gain significance after European monetary union, when dealings would be in a single currency. The Bundesbank's move would also reduce banks' refinancing costs.

The Bundesbank said, however, it was still committed to minimum reserves as an instrument of monetary policy. *Andrew Fisher, Frankfurt*

Business unprepared for Emu

Most European companies have not yet estimated the costs of adapting to a single currency, and only one in 12 has allocated a budget to pay for the necessary changes, according to a survey of 301 finance directors carried out by KPMG Management Consulting. This is despite the fact that the vast majority of senior executives expect their countries to sign up to Emu.

Minimising the costs involved was much more important to them than identifying and exploiting business opportunities, said Ms Vicky Pryce, KPMG's chief economist. Companies were "passive players" and were failing to recognise, for example, the implications that Emu would have for their marketing strategies.

UK companies are the least well prepared. Only one in five has plans in place to cope with the change, compared to more than half in Germany. Financial sector companies – which expect relatively big implementation costs for Emu – are better prepared than manufacturers or the rest of the service sector. *Robert Chote, London*

Istanbul police chief sacked

The Turkish government yesterday sacked Istanbul's police chief and five other security service members while investigators began probing media and opposition claims that they were involved in drugs trade killings. Mrs Meral Akşener, interior minister, suspended Mr Kemal Yazicioğlu, his deputy and the head of the special operations department – an elite police unit – and three of its officers.

Mr Mesut Yilmaz, leader of the opposition Motherland party, accused them of involvement in the murder in July of Mr Omer Lütfü Topal, owner of a casino chain and reputed heroin kingpin. Media reports say Mr Topal was killed in a dispute with rivals over dividing gambling and smuggling profits.

Last month, a car carrying a government politician, a policeman and a wanted gangster crashed last month killing all except the MP, Mr Sedat Bucak from the True Path party, junior coalition partner in the Islamist-led government. The affair strengthened widespread suspicions of government corruption and close ties between police, politicians and organised crime. Mr Mehmet Ağar, a former senior police chief, had to quit as interior minister after media reports linked him to the trio. *John Barham, Ankara*

Aérospatiale sues over missile

French state-owned Aérospatiale revealed yesterday it was suing part of the Lagardère group for allegedly failing to respect their joint development agreement on the Apache family of missiles when Lagardère teamed with British Aerospace to win a £650m ($1bn) UK contract for Storm Shadow, an Apache derivative, early this year.

The complaint, filed in Paris in September, focuses on the alleged failure of Matra-Défense, a Lagardère subsidiary, either to respect the Aérospatiale's intellectual property in the Storm Shadow project or to give it any subcontracting work from the UK programme. The case is expected to be heard next month.

The row is another instance of what appears to be growing ill-will between French defence contractors, all jockeying for position for the restructuring of the arms industry, when it finally comes. *David Buchan, Paris*

ECONOMIC WATCH

Growth forecasts raised

Norway

Source: Reuters, Datastream

Norway's bureau of statistics yesterday raised its forecasts for economic growth, emphasising the strong upswing the oil-fuelled nation is already enjoying. It said it expected gross domestic product to grow by 4.8 per cent this year, against its earlier 4.3 per cent, and by 3 per cent in 1997 against previous expectations of 2.3 per cent. The bureau said GDP excluding oil and gas and shipping had grown 2.8 per cent in the year to the third quarter, and it now expected 2.7 per cent in 1997 rather than 2.4 per cent. These forecasts remained below those of the finance ministry, however, which is expecting 5.4 per cent this year and 3.1 per cent next. The government's chief concern is overheating, prompting it to tighten its fiscal stance to balance a big increase in private consumption. The statistics bureau forecast inflation at 2.8 per cent in 1997, slightly below the ministry's 2.5 per cent. *Hugh Carnegy, Stockholm*

Sweden set to grasp nuclear power nettle

Phasing out capacity will be far from easy, writes Greg McIvor

After two decades of bitter debate and political wrangling, Sweden is poised to embark on its most expensive and controversial environmental project – the multi-billion dollar decommissioning of the country's nuclear power industry.

The minority Social Democratic government is confident of imminent agreement with several opposition parties to close the first of 12 nuclear reactors by the end of the millennium. It would be the first step towards fulfilling a commitment, made following a referendum in 1980, to phase out the country's atomic power capability by 2010.

That deadline is now seen as unrealistic by the government, but Mr Anders Sundström, industry minister, is adamant the process must start after the next general election in 1998. Support appears likely from the environment-oriented Centre party, and several other smaller ones, including the Left and the Greens – sufficient for a clear majority in parliament.

Nuclear power is an emotive issue in Sweden, where public opinion is coloured by memories of the Chernobyl nuclear disaster in 1986, which contaminated large tracts of northern Sweden.

Yet the industrial establishment and union movement are implacably opposed to any weakening of the nuclear infrastructure. They fear the costs of dismantling a cheap source of power will force up electricity prices and undermine manufacturing profitability.

Mr Tord Eng, an economist at the Federation of Swedish Industries, says the knock-on effects of decommissioning just one reactor will spread through business "like ripples on water". "Production will fall and unemployment will rise," he warns.

Mr Bert-Olof Svanholm, chairman of Volvo and head of the Federation of Swedish Industries, says it is like "scrapping your car when it is only a few years old": "If we are truly concerned about nuclear power we should act against those reactors which are the real risks." Nuclear plants in the former Soviet Union pose a far greater threat to the health of Sweden than its more modern reactors, he argues.

The federation has even offered to fund the decommissioning of two of these plants deemed to constitute a high risk – at Ignalina in Latvia and Sosnovyi Bor near St Petersburg – if the government agrees to keep Sweden's plants open for their technical lifespan. However, the offer looks set to gather dust.

Nuclear power accounts for half Sweden's energy needs, hydro-electricity supplying the rest. Reactors are today reckoned to have a 40-year lifespan; Sweden's oldest plant is 24, suggesting the government could wait until 2012. Ministers say this would lead to a flurry of closures which would be impossible to absorb without massive disturbance to the industry. They prefer a programme staggered over many years.

Two key obstacles lie ahead. First, the total cost, estimated at anywhere between SKr90bn ($13bn) and SKr350bn, presents a huge burden for a country of less than 9m people. It is not clear how this would square with the government's pledge to run an annual budget surplus after 1998.

Compensation would have to be paid to the operator of any reactor which is shut, and Vattenfall, the state energy utility, is already demanding SKr10bn per reactor if one of its plants is selected. Sydkraft, the independent nuclear generator, has a similar stance.

Second, it is unclear how the energy gap will be closed. The most straightforward solution would be natural gas, but this would increase carbon dioxide emissions beyond levels Sweden is committed to.

The government would happily plug the deficit by building more hydro-power plants, but it admits this is politically impossible because of public objections to damming more rivers.

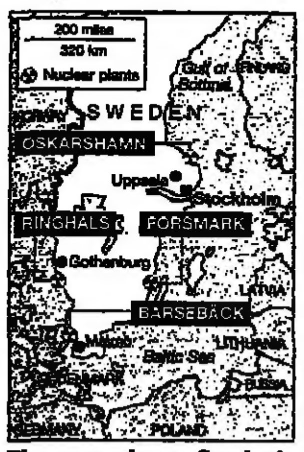
Instead, it insists alternative sources such as solar energy, wind power and bio-fuels will bridge the divide. These are considerably more expensive, however, and would at best replace only one nuclear reactor.

"What we need is a technological breakthrough. We can stimulate that through the closure of one reactor, which will put pressure on the whole research and development sector," asserts Mr Peter Nygards, under-secretary of state at the industry ministry.

He stresses that reactors will only be closed at a pace allowed by technical development and that the government will not countenance higher electricity prices for industry. In the meantime, a research and development programme worth perhaps SKr10bn over five years will be implemented to improve energy recovery from bio-mass products such as wood shavings and waste pellets, while developing other methods such as wind power.

Yet many wonder why the government has mired itself in such a politically sensitive debate at all. The SDP ducked the issue at the 1980 referendum, declining to take a stand for fear of splitting the party. Today the party is no less divided.

The answer lies in the SDP's informal electoral alliance with the Centre party, on which it relies for parliamentary support. Nuclear abolition is a political imperative for the Centre. SDP ministers clearly see this as a price worth paying for its support.



The map shows Sweden's four nuclear sites

Court backs cheap drug imports

By Emma Tucker in Brussels

The pharmaceutical industry yesterday lost its battle to stop cheap unpatented drugs from Spain and Portugal entering other European Union countries.

In a surprise move the European Court ruled in favour of two British companies, Primecrown and Europharm, which wanted to import drugs sold in Spain for resale in the UK. Price controls and the absence of patents in Spain and Portugal help make drugs cheap there.

Overturning the preliminary advice of one of its advocates general, the court ruled that the principle of free movement of goods took precedence over fears that markets would be flooded by cheap, unpatented products.

The ruling should open the way for drug importers in other EU countries to bring in about 30 drugs from Spain and Portugal which will be identical to, but cheaper than, those available in northern Europe.

The complainants – Merck of the US and Smithkline Beecham – argued that the importing of certain drugs from Spain and Portugal, where no drugs were patented before 1992, would cancel out the benefit of the patent protection they still enjoy in most EU member states and harm research efforts.

Merck said yesterday: "By undermining patent protection, the court seems to be willing to risk the benefits to society that come from a strong research-based industry. While the court's ruling may be a short-term victory for the middlemen and arbitrageurs who profit selfishly from the fragmented nature of the European medicines market, it is cold comfort to those who are concerned about the interest of European patients."

The court said there could be no doubt that if a patentee could prohibit the import of protected products marketed in another member state by him or with his consent "he would be able to partition national markets and thereby restrict trade between the member states".

The case forms part of a battle by European drugs companies to prevent medicines from Spain and Portugal entering other Union states. Last year they failed to persuade the European Commission to allow seven countries to extend the ban on drugs from Spain and Portugal.

They said they could lose more than $2bn a year in sales once exports entered their markets. But the Commission said that data supplied in support of the ban's extension had not indicated serious economic difficulties in the sector as a result of parallel imports.

Merck is to take up the issue with Mr Martin Bangemann, the industry commissioner, next week. It and other pharmaceutical countries want a political solution to the problem.

Blockades fail to move Greece's PM

By Kerin Hope in Athens

Greece's prime minister, Mr Costas Simitis, yesterday warned farmers who have been blockading main roads and railway lines for the past week that the government would make no concessions on debts or taxes for any special interest group.

The government appeared to be hardening its stance following the breakdown of talks with farmers' unions and the spread of protests to southern Greece, which could disrupt basic supplies to the Athens area.

The protests are the first test of the Socialist government's commitment to tighter economic policies aimed at ensuring Greek participation in monetary union. Mr Simitis said the government was determined to avoid "the fatal trap" of handing out extra grants or subsidies to farmers, but he will face strong pressure from grassroots Socialist organisations to buy back the farmers' support.

More than 10,000 tractors are blocking intersections on the main north-south highway used by international trucks carrying goods between Greece and central Europe. The farmers have also halted cross-border traffic with Bulgaria and Turkey and cut off access to secondary roads.

They want the government to reschedule about $1.3bn in debt owed to the state-controlled Agricultural Bank and to reinstate a tax break on fuel.

The farmers are a powerful political lobby, as they make up almost 20 per cent of the total workforce. They have grown increasingly militant in response to efforts by the Socialists to tax agricultural incomes and tighten spending by state-funded co-operatives.

Their demands reflect the effect of cuts in EU subsidies for some crops and the government's increased willingness to import fresh produce in order to keep down consumer prices.

Farm union organisers claim that real incomes have declined by more than 20 per cent in the past three years because of rising costs and a loss of competitiveness.

Greek farmers have run up a large burden of debt with state banks by investing heavily in equipment to expand production of industrial crops such as cotton, maize and tobacco, despite the likelihood that EU support prices for such crops will be further reduced.

NEWS: INTERNATIONAL

Protect public access to databases, says US

By Frances Williams in Geneva

US officials yesterday sought to allay concerns in the US and elsewhere that a new international treaty to protect databases from unauthorised copying will restrict public access to information.

Mr Bruce Lehman, head of the US Patent and Trademark Office, said Washington would not endorse any database protection treaty that "locks up facts".

Opponents of the draft pact, one of three intellectual property treaties being discussed at a meeting in Geneva of the World Intellectual Property Organisation (Wipo), say its provisions are too sweeping.

They fear the proposed accord would permit database owners to license virtually all uses of the information contained in them, whether they be court opinions, sports statistics, bibliographies or scientific data.

Mr Lehman said yesterday that the US government recognised these concerns and would not back a treaty unless they were satisfactorily addressed.

The objective of the accord was not to impede use of factual information but to prevent the theft of a substantial investment, he said. Databases can be very expensive to compile but can be copied and distributed electronically with the touch of a few computer keys.

The pact as drafted would establish a special form of protection for databases that involve a "substantial investment" of resources, requiring users to seek authorisation if they want to copy all or "a substantial part".

Noting that the European Union already has a directive on databases, Mr Lehman said the US also saw the need for some kind of database protection. However, though Washington had put forward some treaty language, it was open to discussion of the details.

He said the chances of agreeing a database treaty at the Geneva meeting, which ends on December 20, were anyway "very remote" because procedural delays meant the three-week conference had yet to begin substantive discussions.

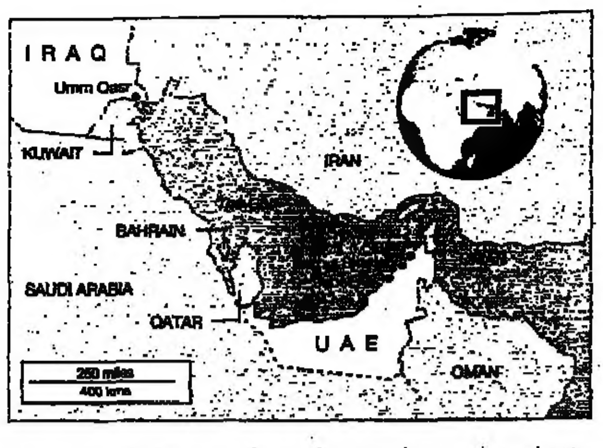
Wipo officials conceded even before the meeting started that the database treaty might not be approved. It was only earlier this year that Brussels proposed "internationalising" its database directive and there has been relatively little discussion outside Europe of issues involved.

If the pact is not accepted this time it is likely to resurface at a Wipo meeting next April in Manila which is due to consider intellectual property protection affecting broadcasters.

Editorial comment, Page 13

Iraq oil shakes Gulf states' unity

Policy divisions over Iraq – and the discovery of embargoed Iraqi gas-oil exports through the United Arab Emirates – have added to disunity among the six states of the Gulf Co-operation Council (GCC) before their annual summit starting tomorrow in Qatar's capital, Doha.



The GCC links Bahrain, Kuwait, Oman, Qatar, Saudi Arabia and the UAE in a loose political, defence and economic agreement. Together they own more than 40 per cent of proven global oil reserves.

The UAE, which for more than a year has been urging Arab reconciliation with Iraq, went a step further last week by suggesting that regional states should "normalise" their ties in spite of UN sanctions.

The UAE proposal was made in the name of its president, Sheikh Zayed Bin Sultan Al-Nahyan, by an Abu Dhabi official. "We (Arabs) have to all do it together. We have to forget what happened," he said, in reference to Iraq's 1990 invasion of Kuwait. Western diplomats report the UAE's proposal met instant but discreet opposition from Kuwait, Saudi Arabia, and Bahrain; and caused considerable concern in Washington.

Speaking in the UAE capital Abu Dhabi, Mr William Perry, US defence secretary said any normalisation of relations with Iraq would be "premature".

When it comes to the GCC heads of state meeting, diplomats say, the UAE is expected to move cautiously on Iraq for three main reasons:

■ First, Gulf states' policy towards Iraq is the longest-standing big issue for the group and represents unfinished business. To scrap unfinished business on the spur of the moment sets the worst possible precedent, the diplomats say. Should the UAE need the GCC's support on an important issue in the future – for example, Iran's occupation of Gulf islands claimed by the UAE – any one or more of the other five could say: 'Why should we help you over the islands when you broke unity over Iraq?' The UAE would have this thrown back in its face, diplomats say, and "it has more than enough wisdom to understand this".

■ Second, if the GCC restored relations with Iraq, this would "send a message to Baghdad that Gulf states are a weak and accommodating group willing to help Iraq defy UN sanctions provided Iraq stares down the international community long enough. This too," the diplomats said, "would set a precedent which is not in the GCC's interest."

■ Third, for the UAE or GCC to break UN ranks "would be received with relish by the incumbents in Baghdad that regardless of how strictly the UN monitors the oil-for-food deal, the GCC can be relied on to provide a loophole," according to a diplomat.

British and US intelligence officials are reported to be already "seriously concerned" at the way Iraqi middle distillate gas-oil and diesel are finding their way to UAE ports.

Western air and naval surveillance in the Gulf shows "constant" shipments of Iraqi gas-oil leaving Umm Qasr at the mouth of the Gulf and moving inside Iran's territorial waters, before berthing at Iranian ports.

Without unloading, the ships then cross the Gulf to the UAE, having swapped counterfeit certificates of origin for "genuine" ones.

They are seen unloading their cargo at Dubai's Jebel Ali, "and two smaller ports in the northern emirates" – understood, but not confirmed, to be Sharjah and Ajman.

The gas-oil is then imported into the UAE itself, either for domestic consumption, where it would have to undercut local products, or more likely for re-export by road through the UAE, or by sea on local *dhows* to other GCC states. Most, however, is thought to go by *dhow* to the Indian sub-continent.

Diplomats say Kuwait, Saudi Arabia and Bahrain, as well as the US and UK, all "hope to see the UAE restoring a measure of discipline among those of its members where respect for UN sanctions is somewhat lax".

Robin Allen

Economy seen as key to Ghanaian election

Ghana's reputation as Africa's political and economic trendsetter means the outcome of tomorrow's presidential and parliamentary election is likely to be closely watched by multilateral institutions operating in a region where democracy remains rooted on uncertain foundations.

The indications are that President Jerry Rawlings, the military ruler for a decade before his victory at the ballot box in 1992, may be hard pushed to keep his job.

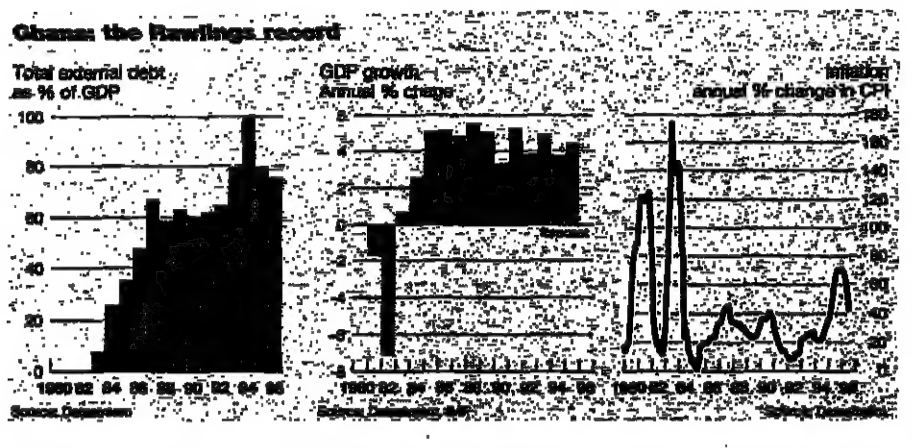
Initially a populist radical, Mr Rawlings was the first in Africa to embrace economic reforms inspired by the World Bank and International Monetary Fund, before again leading the way as the first to abandon his fatigues and compete for power at the polls.

The gold- and cocoa-based economy has been the focus of campaigning, with Mr Rawlings' most serious opponent, Mr John Kufuor, arguing that after 15 years of structural adjustment, average annual wages remain below $500, unemployment is high, inflation hovers at about 50 per cent and foreign debt constitutes nearly 80 per cent of gross domestic product.

He further complains of unpunished corruption in high places.

Mr Kufour, an Oxford-educated lawyer who leads an awkward alliance of his own conservative New Patriotic party and the more populist People's Convention party, advocates a quickening of the pace of economic reform and privatisation.

The president's supporters point to a record of consistent economic growth since 1983, reversing Ghana's slide from relative prosperity at independence to poverty and decay during the 1960s and 1970s.



"It's very close," said one western diplomat in the capital, Accra. "The opposition are doing well in the towns, but Rawlings is strong in the country. It has made for a very tense last few days."

In the central city of Kumasi last weekend, competition between opposition and government supporters spilled over into violence between gangs of what are known locally as "macho boys", in which one person was killed. Lurid accounts of the confrontation in partisan newspapers have contributed to unease elsewhere, including Accra and several other towns.

Tensions have not been eased by Mr Kufuor's choice of running mate: Mr Kow Arkaah, the vice-president who fell out with Mr Rawlings during a cabinet confrontation a year ago when he was allegedly assaulted and had his suit sleeve torn.

Whichever candidate emerges victorious will require more than 50 per cent of the vote to avoid a run-off later this month.

Equally uncertain is the outcome of parliamentary elections, in which more than 700 candidates are standing for the 200-seat National Assembly. While executive power rests with the presidency, a legislature opposed to the head of state would promise to make politics in Ghana more lively, and abrasive, than at any time since the bitter 1970s.

The 49-year-old Mr Rawlings has dominated Ghanaian politics for a generation. His supporters are confident of one, final victory. "But," says Mr Edward Salia, his transport and communications minister, "our greatest triumph will be to show that Ghana, the first in Africa to abandon dictorship and economic stagnation, will again be first by managing a second, consecutive, election, free and fair, and conducted in peace."

Antony Goldman

Taipei to suspend Pretoria links

An angry Taiwanese foreign minister said yesterday his nation would recall its ambassador to South Africa and immediately suspend all aid projects and treaties in protest at the breaking of diplomatic ties, Reuter reports from Johannesburg.

Mr John Chang told a news conference the moves showed the island state's displeasure at Pretoria's decision to cancel diplomatic links with Taiwan from 1997 in favour of China.

Speaking after talks in Pretoria with Mr Alfred Nzo, South Africa's foreign minister, an angry-looking Mr Chang said Taiwan would suspend its aid programme in South Africa and the bulk of 36 existing treaties and agreements between them.

Mr Chang said the announcement caused him "great pain".

"We came to Pretoria with the sincere hope, and a bleeding heart, to try to find out whether or not we can save our diplomatic, at least to say formal, relationship," he said.

That hope was dashed in talks with President Nelson Mandela on Wednesday, who said he would stick by his "agonising" decision of the week before to end diplomatic ties with Taiwan.

Taiwan is South Africa's seventh-largest trading partner, with two-way trade totalling R5.7bn ($1.24bn) in 1995. Up to 43,000 jobs could be at risk if Taiwan disinvested entirely from South Africa, though this is not seen as likely.

NEWS: WORLD TRADE

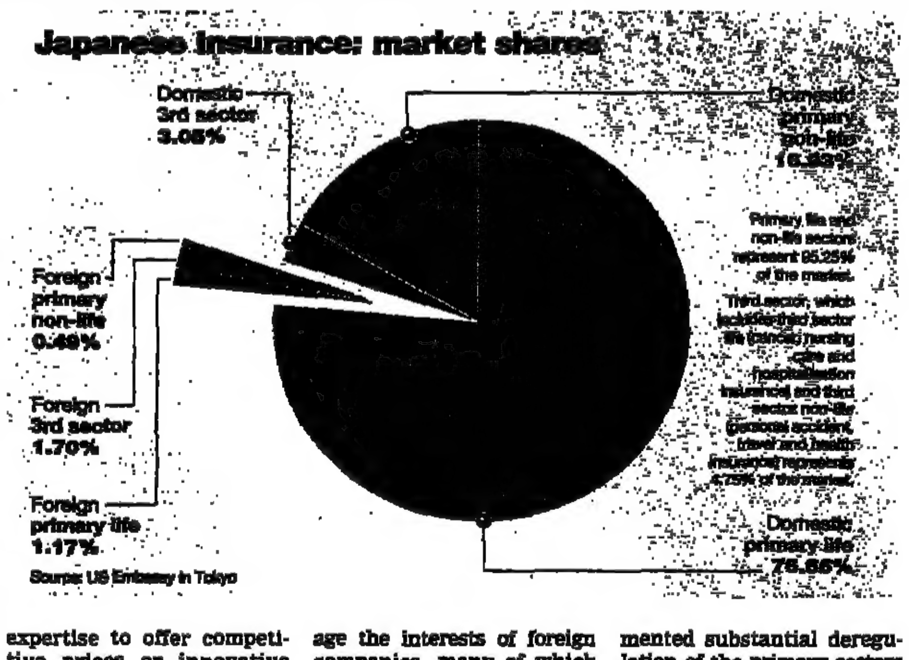
US and Japan in a tangle on insurance

Michiyo Nakamoto reports on why Tokyo hesitates to deregulate its life and non-life sector

US and Japanese trade negotiators meet in Tokyo today with little more than a week to resolve a bitter dispute over access to Japan's insurance market, the second largest in the world.

Ms Charlene Barshefsky, acting US Trade Representative, and Mr Hiroshi Mitsuzuka, Japan's finance minister, will begin what are expected to be final negotiations before a self-imposed December 15 deadline for settling the argument.

Earlier deadlines have been passed without agreement and failure this time could lead to sanctions by the US.



Source: US Embassy in Tokyo

The dispute, which stems from a 1994 agreement on liberalisation of Japan's insurance market, centres on two main issues: deregulation of the primary markets of life and non-life insurance and protection of the interests of companies dependent on the third sector of the market, which covers such products as accident insurance.

The US is unhappy about the slow progress made in deregulating the primary markets and about Japanese plans to allow domestic life and non-life insurance companies into the third sector through subsidiaries.

Because of stringent rules on the rates and types of insurance products and on how those products may be distributed, says the US, foreign companies are prevented from using their expertise to offer competitive prices or innovative products.

For example, rates for motor insurance, which makes up nearly 50 per cent of the non-life insurance market, are strictly regulated by a rating association which sets more or less uniform rates for everyone, regardless of age or region. The US argues that if rates are liberated, good drivers would not have to subsidise bad drivers and more efficient companies could compete on the basis of cheaper rates.

At the same time, the US is concerned that the entry of Japanese companies into the third sector could damage the interests of foreign companies, many of which have carved out a profitable niche in third sector products, such as personal accident and cancer insurance. AIU, the US group, has the largest share of Japan's travel insurance market, according to ING Barings.

Such deregulation of the third sector, the US claims, is in breach of the 1994 agreement in which Japan promised to avoid radical change in the business environment of the third sector market and substantially to deregulate the primary sectors before liberalising the third sector.

The Japanese counter that they have in fact implemented substantial deregulation of the primary sectors and that the liberalisation measures introduced in the third sector do not constitute radical change.

The ministry of finance has given way on a US demand to allow direct mail motor insurance, which had been adamantly opposed by the Japanese industry, and American Home Assurance Company, a subsidiary of AIG, is offering a direct mail service from this month. The finance ministry has also increased the number of insurance products for which rates will be deregulated.

The US is not yet satisfied. This week, Ms Barshefsky emphasised that a resolution to the dispute depends on significant deregulation in the primary sector. But the Japanese authorities and industry protest that Japan is being asked to give up a system with which they are extremely comfortable and adopt one that is alien to Japanese culture.

The Japanese are particularly worried about the disruptive effects that a sudden injection of competition would have on a society that treasures harmony and on a tried and tested system in which regulation may have kept choice limited and prices high but which has ensured insurance is widely and equally available.

The deregulation advocated by the US would create a market in which those who are deemed to be bad risks will have to pay more than those who are considered good risks. "This is not acceptable to Japanese society," explains Mr Nobuo Hara, general manager of the international department at the Marine and Fire Insurance Association of Japan.

"We are not against increasing choice for the consumers," he says, "but the question is whether or not we can accept the principle of inequality."

Japanese people would find it hard to accept deregulation of motor insurance rates which could lead to younger and elderly people with higher risks, and those living in areas where the incidence of accidents is higher, having to pay higher premiums. "This would create social disruption," says an official at the finance ministry.

The Japanese also shudder at the thought of how such deregulation would lead to people with higher risks, who would be unwilling or unable to pay the higher premiums, driving without insurance.

Although the US emphasises that deregulation would create greater choice for consumers, even independent observers are sceptical of the benefits of primary sector deregulation.

The small number of companies in the industry – there are only 24 non-life insurance companies and 27 life insurance companies in Japan compared with about 4,000 altogether in the US – means that market forces are unlikely to work effectively, says Ms Rie Ota, industry analyst at ING Barings in Tokyo.

Rating associations set rates at levels that provide reasonable profits for everyone, but once rates are deregulated and price-cutting occurs, the whole system of making profits collapses, Ms Ota notes.

When that happens, and some insurance companies end up unable to cover their payments, "the consumers will be hurt the most," she says. That is a situation Japan's regulatory regime is determined to avoid.

WTO urged to set target date for free trade

By Guy de Jonquières

World Trade Organisation ministers were yesterday urged by a group of leading international economists to set a target date for achieving global free trade and to agree to launch a new round of comprehensive trade negotiations by the year 2000.

The 34 economists said the ministers' meeting in Singapore next week should reject a US-backed demand that the WTO discuss labour standards. They said adopting a "social clause" would weaken support for the organisation and thwart trade liberalisation.

In a joint statement published by the Stockholm school of economics, the economists urged the WTO ministers to call for the removal of all tariff and non-tariff barriers to trade by 2025.

Such a commitment would complete the liberalisation achieved by the Uruguay Round world trade agreement and would help prevent the multilateral system being undermined by the growth of discriminatory regional trading arrangements, they said.

The economists said the WTO should accept controversial proposals to discuss competition policy and global investment rules, but should leave efforts to improve labour standards and respect for human rights to specialised agencies such as the International Labour Organisation and Unicef.

"Our view is that the more one includes such social or societal objectives into the WTO, the more one is setting up road blocks to trade liberalisation, which is and should remain the main objective of the WTO."

The economists proposed that WTO ministers resolve the threat of conflict between global trade and environmental rules by "grandfathering" the main multilateral environment agreements concluded until now.

They also urged an increase in the WTO's budget and resources. Signatories include Professors Paul Krugman, Jagdish Bhagwati and Anne Krueger of the US, Staffan Burenstam Linder and André Sapir from Europe, Ross Garnaut and Richard Snape from Australia and Koichi Hamada of Japan.

● Mr Shinji Sato, Japan's minister of international trade and industry, yesterday confirmed that he would not go to the WTO meeting because he had to answer parliamentary questions on a scandal involving Miti officials, William Dawkins reports from Tokyo.

Mr Sato's decision to stay at home is the clearest sign yet of the alarm in the seven-week-old minority government about this and another corruption scandal. Mr Yukihiko Ikeda, foreign minister, is due to attend part of the WTO meeting in Mr Sato's place.

Export credit guidelines agreed

By Nancy Dunne in Washington

Industrial countries agreed yesterday to a set of formal guidelines for their export credit agencies to use in deciding whether to provide export financing tied to foreign aid to customers in developing countries.

The new rules on "tied aid" were announced yesterday by the Organisation for Economic Co-operation and Development (OECD), based on an outline agreement on the use of aid credits signed in Helsinki in 1992 as part of the OECD's Arrangement on Export Credits.

The guidelines limit tied aid to projects which are sound from a development perspective, but are financially unviable and therefore not able to attract credits on the market.

Export credit agencies use tied aid to help their exporters win contracts in highly competitive markets. China often demands such subsidised credit. France and Japan have most often been its providers.

The new rules bring the OECD a step closer towards a long-time goal of removing distortions in trade and competition created by government-backed export credits. During the 1980s, as much as $10bn a year in tied aid financing was awarded, but OECD curbs last year helped limit tied aid to less than $4bn.

"Every country faces temptations and pressures to provide assistance to its exporters, and everyone is facing budgetary pressures," said Mr Jeffrey Shafer, US Treasury under-secretary for international affairs.

"As budget pressures have increased, countries have agreed to join with us to exercise mutual restraint."

Under the OECD rules, wealthier developing nations are not eligible for tied-aid credits, while the poorest countries are excluded from the ruling altogether.

Vietnam resolved to meet Afta rules

By Jeremy Grant in Hanoi

Vietnam's foreign minister, Mr Nguyen Manh Cam, yesterday reaffirmed Hanoi's commitment to meeting ambitious tariff reduction targets of the Asean Free Trade Area (Afta) and urged the country's poorly performing state sector to become competitive.

"From now to 2006, we will take all the steps necessary," he said. "In the future we will have to adapt policies more to Afta."

Under Afta rules, Vietnam has until 2006 to change its tariff structure to bring it into line with most members of the Association of South East Asian Nations (Asean). That includes cutting duties on most imports to 5 per cent or lower. Hanoi joined Asean in July last year.

Vietnam emerged from under the umbrella of Comecon, the Soviet commandstye economic grouping, only 10 years ago. Since then, its economy has seen impressive growth rates, averaging 8.5 per cent in the last three years.

However, some economists worry that Hanoi's insistence on keeping the state sector as the backbone of the economy betrays a protectionist instinct out of step with its official desire to embrace trade liberalisation.

There are also concerns that its enthusiasm for steering its state enterprises towards import substitution rather than exports may slow growth.

However, Mr Cam said state enterprises faced "a new situation" in which they had to be competitive and indicated that Vietnam saw no contradiction between this and a strategy of opening up its economy to external competitive pressure.

"If we protect the products of those enterprises, we at the same time must meet the requirements of Afta. We have to re-adjust our laws and regulations in order to integrate into the region," he said in an interview with the Financial Times.

NEWS: ASIA-PACIFIC

Formosa Plastics group to sign landmark deal to generate and sell electricity

Taiwan contract to end power monopoly

By Laura Tyson in Taipei

Formosa Plastics, Taiwan's biggest industrial group, will today become the country's first private sector power supplier, ending a 50-year state monopoly and marking a milestone in Tapei's privatisation programme.

In its first foray into the power industry, the petrochemicals-to-electronics giant will sign contracts to generate and sell electricity to Taiwan's state-owned monopoly, Taiwan Power (Taipower).

Its 1,800MW thermal power plant, estimated to cost US$1.44bn, will break ground in Mailiao in northern Taiwan next week and is scheduled to come on line in October 1998.

Mailiao is the site of Formosa Plastics' multi-billion petrochemical complex now under construction. It will house an oil refinery and several downstream petrochemical plants.

Demand for electricity in Taiwan is growing at a rapid rate, averaging about 6 per cent a year.

The increasing demand and the strident opposition to government plans to build the island's fourth nuclear plant in northern Taiwan were behind the decision to open power generation to the private sector.

Formosa Plastics was one of 11 consortia which won licences last year to build and operate electricity generating plants in the initial stage of privatisation.

Under government rules, the new independent power producers must sell electricity generated by the new plants to Taipower for distribution.

If all 11 projects are completed, they would add a combined 10,300MW to Taiwan's 1995 total installed capacity of 21,900MW.

Several other private sector groups which won licences are facing financial and practical problems in constructing power plants.

Formosa has agreed to sell about 1,350MW of electricity to Taipower over three years at an undisclosed price, starting in March 1999.

Formosa also plans to build a US$3bn power complex in Zhangzhou, in the Chinese province of Fujian, on the south-east coast of China opposite Taiwan.

However, the project has been temporarily put on hold since August, when Taiwan's President Lee Teng-hui called on Taiwan business to slow the tide of investments to China.

Coalition for NZ 'by next week'

By Terry Hall in Wellington

Mr Jim Bolger, New Zealand's caretaker prime minister, is "95 per cent certain" a new government will be formed by next week, he said yesterday.

He was delaying recalling Parliament by two days until next Thursday to give Mr Winston Peters, leader of New Zealand First, time to decide which of the two main parties, National or Labour, he wished to join in a coalition government.

Parliament must by law meet by Friday December 13 to elect a speaker. Some MPs apparently do not want to start the first session of New Zealand's first parliament elected on a proportional system, on a date traditionally considered unlucky.

"A little more time doesn't matter in this business," Mr Bolger said. "For 60 years we've had the Maori people on the left of the political spectrum, now after seven weeks' negotiations we've got a chance to see them in the centre." Mr Peters is part-Maori.

A powerful group of New Zealand exporters yesterday criticised some economic policy proposals of Labour and New Zealand First, which it called inflationary. Labour wants to widen the Reserve Bank's target inflation band from 0-2 per cent to 0-3 per cent; New Zealand First wants it set "just below" the average figure of New Zealand's trading partners.

The exporters' group said after talks with Mr Don Brash, Reserve Bank governor, the bank should be given more flexibility in meeting its 0-2 per cent inflation target as a way of lowering value of the Kiwi dollar, up 30 per cent in the past four years.

The group, comprising the heads of 10 exporting groups, is concerned by the bank's tight monetary policy, widely blamed for the continuing rise in the dollar.

Exporters said its strength meant some exporters faced ruin.

Financier with eye to power games

James Kynge reports on the rise of a Malaysian banking magnate

A game of squash between a finance minister and the Sultan of Brunei, the world's richest man, yielded an enduring triumph for a third party, Mr Rashid Hussain.

The game ended with the Sultan saying to his partner: "Don't worry, somebody will be interested" – a reference to a large tranche of shares in Malaysian Airlines, which Mr Rashid, handling his first big tender and concerned about poor investor response, was placing.

"I had the trader of the Brunei Investment Agency calling up shortly afterwards asking: 'Is that block [of shares] still available?'" said Mr Rashid, who last week took control of Malaysia's biggest financial group following the merger of two banks.

The game was played some years ago but in the world of "Malaysia Inc," the hothouse co-existence between business and politics which conditions the national economy, favours are rarely forgotten. The merger betrayed signs of the government exacting repayment for the help it once granted the emerging entrepreneur.

Until last week, Mr Rashid was Malaysia's leading stockbroker with a reputation as the most prominent operator.

Over the next six months, as the deals are finalised, Mr Rashid and his family will become the controlling shareholders of a financial powerhouse called Rashid Hussain, comprising a merchant bank, a stockbroker, a retail bank, an insurance company, a leasing company and various other subsidiaries.

The bank, DCB Holdings, will have assets of M$32bn ($12.7bn) after its agreed merger last week with Kwong Yik Bank. It will become the second largest Malaysian bank by profits and the third by assets after Maybank, a government-linked concern, and Bank Bumiputra, a troubled state-owned entity likely to be privatised.

"I was told I am almost the first stockbroker in the world to end up running a bank," Mr Rashid said.

His new-found national prominence is further boosted by his "national service", a post as chairman of the executive committee of Khazanah, a government-holding company and investment vehicle with M$35bn-M$40bn in assets.

Khazanah is headed by Dr Mahathir Mohamad, the prime minister, who has said he sees no conflict of interest between Mr Rashid's post in Khazanah and his position as a financial mogul.

Mr Rashid was not the only beneficiary of last week's merger. The government also earned a payback. It realised the kind of banking merger it has been urging for years and, crucially, it has also enhanced its influence in the new Rashid Hussain conglomerate.

The 27.6 per cent stake gained by Malaysian Resources Corporation (MRCB), a publishing and property conglomerate controlled by Dr Mahatir's United Malays National Organisation (the dominant political party in Malaysia's ruling coalition) in the new financial group is greater than Mr Rashid's personal stake of just over 26 per cent.

Rashid Hussain: 'shrewd deal-maker and precise memory'

Only by adding the stakes of his family members does Mr Rashid emerge as controlling shareholder of the Rashid Hussain holding company with just over 30 per cent.

There is no doubt Mr Rashid's overall influence has been bolstered by the merger. But observers say he has ceded considerable management control to MRCB. Mr Rashid's past provides some clues as to why he was willing to do this.

Mr Rashid, who passed the London Stock Exchange examinations and briefly worked on that market, set up his brokerage house in 1983. One of his first big breaks was in 1986 when he won the tender to place out a large tranche of shares in Malaysia Airlines.

The game of squash between Mr Daim Zainuddin, the then finance minister and still the kingmaker in Malaysia's corporate world, and the Sultan helped ensure a successful placement.

Later, help came again from Mr Daim, who now holds the post of economic adviser to the prime minister and is widely believed to have a key say in allocation of privatisation concessions.

Mr Rashid wanted to float his brokerage house on the stock exchange but regulatory authorities resisted. Mr Daim, who was keen to develop the brokerage industry, stepped in and the company became, in 1988, the first securities firm to list.

"Rashid has been helped by the government, that is for sure," said one former associate. "But the government's role has been relatively minor in his success. He is a very shrewd deal-maker, good with figures and he has a precise memory."

Mr Rashid says his new group will be looking to finance the expansion of Malaysian companies abroad – a central aim of the government as the Malaysian economy becomes more international. MRCB, for its part, stands a good chance of winning lucrative infrastructure projects, such as the construction of a new administrative capital, Putrajaya, near Kuala Lumpur.

Mr Rashid says he wants to keep the new holding company active and involved in value-added projects in, for example, infrastructure and privatisation.

He also wants to build up his brokerage presence in the south-east Asian region; a new representation is expected to be opened in Thailand shortly. The firm already has offices in London, New York, Indonesia, the Philippines and Singapore and is positioning itself as a home-grown expert on south-east Asia's booming economies and on Islamic finance.

In investment banking, the field that excites Mr Rashid most, there are also plans to expand abroad. But most south-east Asian countries – including Malaysia – have yet to liberalise their banking industries, making it difficult to set up anything but representative offices.

However, he is hoping that Malaysian banks may over the next few years get licences on a reciprocal basis to open fully fledged branches in other Asian nations.

For this, he says, a little help from government diplomacy would not go amiss.

ASIA-PACIFIC NEWS DIGEST

Patten pledge on passports

Mr Chris Patten, governor of Hong Kong, yesterday sought to remove anxieties about the treatment of British passport holders in the territory after it returns to Chinese sovereignty on July 1 next year.

Speaking to a special session of the Legislative Council, Mr Patten said the holders of passports granted under a 1990 scheme would not be treated as dual nationals. The scheme offered British passports to 50,000 Hong Kong households and covers more than 135,000 people.

Concerns had been prompted earlier this week after a senior British official noted that China regarded holders of such passports as dual nationals and therefore exempt from British consular protection. But Mr Patten pointed out yesterday that there were no differences between the special-scheme passports and other British passports. *John Ridding, Hong Kong*

HK boat camp to close

The Whitehead detention centre, one of Hong Kong's main camps for Vietnamese boat people, will be closed on January 3, signalling the beginning of the end of the problem, according to Mr Brian Bresnihan, Refugee Co-ordinator. If current repatriation rates are kept up, it should be possible to close all the camps in the territory by the middle of next year, he said.

Mr Bresnihan said China has demanded that all migrants be returned to Vietnam by the time it resumes sovereignty over Hong Kong on July 1. More than 61,000 Vietnamese migrants had been returned since 1989 under the territory's repatriation programmes and 7,700 now remained in Hong Kong. *John Ridding*

Philippine inflation slows

A sharp drop in rice prices was behind the fourth consecutive monthly drop in Philippine inflation last month. It slowed from 4.7 per cent to 4.5 per cent. For the 10 months to November average inflation stood at 8.7 per cent. Rice, which makes up about 13 per cent of the consumer price index, reported weakening prices in 12 of the 16 producer regions. Government economists expect impending petrol price increases to push inflation above 5 per cent in December. *Justin Marozzi, Manila*

ADB sets Taiwan issue terms

The Asian Development Bank (ADB) yesterday set terms for its second local-currency fund-raising exercise in Taiwan. The coupon rate (fixed interest rate) for the launch of T$7bn ($255m) in seven-year bonds was set at 6 per cent, according to Taiwan's Chinatrust Bank, lead underwriter of the issue. In August 1995, the ADB issued a seven-year Taiwan dollar-denominated bond worth T$2.6bn.

Taiwan's central bank approved the latest issue last month in an effort to internationalise and develop the cash-rich island's financial markets, although the bank's governor, Mr Sheu Yuan-dong, cautioned against moving too fast. *Laura Tyson, Taipei*

Indonesia cuts money rates

Indonesia's central bank yesterday signalled a relaxing of monetary policy by cutting interest rates on its money market certificates, the financial instruments through which banks borrow from the central bank. Interest rates on all of Bank Indonesia's money market certificates, known as SBPUs, were cut by 50 basis points.

The one-week SBPU rate was cut to 15.25 per cent from 15.75 per cent, the two-week rate to 15.5 per cent (16 per cent) and all other categories, from one month to one year, to 16 per cent (16.5 per cent). The cuts sent the Jakarta Stock Exchange Composite Index to a peak of 634.29 point, up 1.3 per cent. They mark a departure from Bank Indonesia's tight monetary policy and come at a time when Indonesia's inflation rate is at historically low levels; the November year-on-year inflation rate stood at 6.9 per cent. *Manuela Saragosa, Jakarta*

Boost for Australian government on Telstra sale

By Nikki Tait in Sydney

Partial privatisation of Telstra, the Australian telecoms group wholly owned by the federal government, looks set to go ahead after two independent senators voted with the government to ensure enabling legislation was not lost in the Senate, parliament's upper house.

The government wants to sell off one-third of Telstra shares, a move which could raise around A$8bn ($6.5bn) for federal coffers. It would be the largest privatisation ever seen in Australia.

The ability to proceed with the sale has hung in the balance for months as the two independent senators, Mr Brian Harradine from Tasmania and Mr Mal Colston, who defected from the Labor opposition in August, have prevaricated.

The government, which made the Telstra sale a key plank in its election manifesto, does not have a majority in the Senate. Labor and the minor parties are strongly opposed to the privatisation, so support from both independents is necessary to carry the bill.

The two senators appear to have been swayed at the eleventh hour by the promise of a A$250m package for regional Australia, to be funded from the proceeds of the share sale. "The money will be used to improve the quality of telecoms services and enhance the employment opportunities in regional areas throughout Australia," said Senator Richard Alston, telecommunications minister. "Low politics," retorted Mr Kim Beazley, opposition leader.

The government agreed to delay proclamation of the Telstra legislation so that an inquiry could be held into Senator Harradine's suggestion that redeemable preference shares in the telecoms giant be sold off to private investors, rather than ordinary shares.

Senator Harradine has canvassed this option strongly, though the federal treasurer has already said he does not believe it is a workable proposition.

While the "second reading" vote is a strong indication of the bill's likely success, the government cannot relax. The bill must still pass through the committee stage and a "third reading".

NEWS: THE AMERICAS

Productivity in US sees 0.3% decline

By Gerard Baker in Washington

US labour productivity marked its first decline in nearly a year in the three months to September, the Labor Department reported yesterday.

The fall, at a seasonally adjusted annual rate of 0.3 per cent, was the result of a slower pace of economic growth in the summer.

The figure was a downward revision of a previous estimate of an increase in productivity in the third quarter of 0.2 per cent.

Total output increased at a 1.8 per cent annual rate in the three months to September, while the number of hours worked grew at a 2.1 per cent rate, the department said.

Short-term productivity, defined as output per number of hours worked, tends to rise and fall in line with overall production, as the number of workers employed and hours worked changes little on a quarterly basis, while total output varies much more widely.

After a slight fall at the end of last year, non-farm productivity rose strongly in the first six months of 1996, reflecting the rapid growth in overall production.

Gross domestic product expanded at an annual rate of over 3 per cent in the first half of the year, with productivity growth of over 1 per cent.

But as the economy slowed after the summer, to an annual growth rate of just 2 per cent between July and September, productivity fell.

The decline in productivity suggests gentle inflationary pressures remain just beneath the surface of the US economy, since employees' pay continues to rise in spite of the fall in their output per hour.

Unit labour costs, which account for two-thirds of all production costs, rose during the third quarter at an annual rate of 3.7 per cent, up from 3.3 per cent in the April-June period. Workers' hourly compensation, adjusted for inflation, increased at a rate of 1.1 per cent.

Other figures published yesterday by the Labor Department showed a fall in the number of first-time claims for unemployment benefit last week. New applications fell from a seasonally adjusted rate of 344,000 in the previous week to 366,000, partly because of a working week shortened by the Thanksgiving holiday.

No reason to believe economy is deviating from benign growth path

The less volatile four-week moving average of new claims showed a continuing upward trend in claims. It rose by 1,000 to 337,750, the highest level since July.

There is little evidence in any of the figures that the US economy is deviating markedly from its benign path of stable growth. Employment figures to be published today are expected to show a slight increase in jobless claims and a slowing of employment growth.

This slight increase in joblessness is commensurate with the gradual slowing of the economy in the second half of 1996 to a more sustainable rate than was achieved in the second quarter of the year. Most economists see little justification in the figures for the Federal Reserve to raise interest rates when its policy-making federal open markets committee next meets in two weeks' time.

US banks boost Mondex hopes

By George Graham, Banking Correspondent

Mondex, one of the leading contenders in the race to develop an "electronic purse", yesterday boosted its chances of success when it persuaded four large US banks to join its list of North American franchises.

Chase Manhattan, Dean Witter Discover, First Chicago NBD and Michigan National will all join the US offshoot of Mondex, which has developed a plastic card with an embedded microchip which can be loaded with money, then used instead of cash.

Bankers and retailers are showing increasing interest in electronic purses, which can reduce the cost and risk of handling large quantities of cash. But no one wants to invest heavily in an experimental technology which may never gain general acceptance.

Mr Michael Keegan, Mondex's chief executive, claimed the new group of backers was "further evidence that Mondex will be the global standard for chip-based payment products".

The move follows the acquisition last month of a 51 per cent stake in Mondex International, the worldwide grouping developing the card, by MasterCard, the global payments consortium.

That has helped bring in Chase Manhattan, the largest bank in the US, since it had previously planned a trial in New York of MasterCard's own electronic purse, MasterCard Cash, now axed in favour of Mondex.

However, Chase is also testing Visa Cash, the electronic purse produced by MasterCard's arch-rival in the payment card business.

Dean Witter is also seen as a significant addition for Mondex, since it is the single largest issuer of general purpose credit cards in the US, with 43m cardholders. It has a network of more than 2m merchants who accept its cards.

Jurek Martin detects disappointment at the new foreign policy team

Clinton team short on global vision

Albright, Lake and Berger: second-term team under spotlight

The foreign policy establishment, in Washington and in other world capitals, has been hoping against hope that President Bill Clinton would offer the world a second-term vision of America's place in a changing world it has considered so lacking in his first four years.

The president himself may yet address this task. But the foreign policy team he unveiled yesterday will nonetheless disappoint those weaned on a tradition of latter-day American Metternichs – Henry Kissinger, Zbigniew Brzezinski, even James Baker – to whom global strategy, whether applied well or badly, was mother's milk.

The paper trail of ideas and thinking compiled by Mrs Madeleine Albright, the new secretary of state, Mr William Cohen at the defence department, Mr Anthony Lake, moving to the CIA from the National Security Council, and Mr Sandy Berger, his successor, is not, except in the case of Mr Lake, extensive.

None is a novice in foreign policy. Like Mr Warren Christopher, Mrs Albright has been steeped in it for more than 20 years as a resident of think-tanks and academia and as a foreign policy adviser to prominent Democrats.

She does have an acknowledged mentor in Mr Brzezinski, national security adviser to President Jimmy Carter and a perennial fount of ideas. But her strengths, as deployed over the last four years as ambassador to the UN, have been more in implementation.

Equally, Mr Cohen, the outgoing Republican senator from Maine, knows defence well, as a longstanding member of the Senate's armed services and intelligence committees. But his reputation rests more on a handful of spy novels he has written than learned dissertations on defence theory.

The record of the last four years has revealed Mr Lake and Mr Berger as quintessential self-effacing team players reluctant to make public waves – a habit that may come more naturally to Mr Lake, who has commuted between academia and government for over a quarter of a century, than to the more combative Mr Berger.

The new NSC chief, a Washington trade lawyer in the 1980s, will bring to the job a greater background in commercial issues than did Mr Lake.

He has been, for example, in the forefront of the annual battles to renew China's most favoured nation trading status.

But, more important, both Mr Lake and Mr Berger, as well as Mr Christopher, have ensured no resurrection of the classic turf battles between the National Security Council and the State Department that marked the tenures of Mr Kissinger (who served in both), Mr Brzezinski and Mr Baker.

This is obviously a modus operandi that appeals to Mr Clinton, not a man who relishes conflicts between powerful and strong-minded assistants. Mrs Albright certainly has a reputation for being outspoken, with more public abrasiveness than Mr Christopher was wont to display, but she has been conspicuously loyal to her president.

The fact that she has been tough with the UN and Mr Boutros Boutros Ghali, its secretary general, should ensure few problems with her nomination in a Senate that took a sharpish turn to the right in last month's elections.

Senator Jesse Helms, chairman of the foreign relations committee and a scourge of the State Department, was particularly pleased with her attack on Cuba after its air force earlier this year had shot down two aircraft carrying anti-Castro activists.

She also has been, in relative terms, a hawk on the Balkans, an inside force behind the decision that eventually led to the deployment of more than 20,000 US troops in Bosnia and the Nato air strikes last year which preceded it.

Mrs Albright is on record as having little truck with the doctrine of "maximum force" developed by former General Colin Powell. This holds that US troop deployment overseas should be confined to those theatres where its military advantage is overwhelming – an approach not easily applicable to messy peacekeeping operations.

The new team, of course, reports to Mr Clinton and to Vice President Al Gore, whose established influence over foreign policy is likely to grow as he approaches his own presumed bid for the White House in the year 2000.

Collegiality, therefore, still rules. It is leavened by experience, not least that of a president aware that second terms and historical legacies are more often than not associated with global developments.

However, the Washington foreign policy establishment, which has been not so secretly rooting for one of its own, Mr Richard Holbrooke, to take over the State Department but would have settled for Mr George Mitchell, is rumbling with dissatisfaction.

It will reverberate for some time – at least until the "great vision" is finally articulated.

Venezuela to restructure $3.9bn debt

By Raymond Colitt in Caracas

The Venezuelan Congress has passed legislation that will allow the government to restructure an estimated $3.9bn debt with the central bank.

Under the new law, the ministry of finance will issue bonds to replace the old debt, incurred in 1990 when the central bank financed the collateral in a restructuring of Brady debt. The central bank, in turn, will be able to place the bonds on the market to carry out its monetary policy.

The move is seen as an important step in strengthening the central bank at a time when decisive monetary policy is seen as necessary in the government's attempts to bring down inflation from the current annual 97.4 per cent to a target of less than 30 per cent next year.

"This will undoubtedly improve the efficacy of the central bank's open-market operations," says Mr Lawrence Goodman, head of Latin American Research at Salomon Brothers in New York.

Until now the central bank issued its own stabilisation bonds (known as TEMs) and carried the cost of interest payments, thus creating new liabilities.

"It was a vicious circle," says Mr Orlando Ochoa, an independent economist. "Each new bond issue had to be larger than the previous one to pay the interest because the central bank simply had no funds."

The problem has been made worse in recent months as windfall oil revenues in excess of $2bn have inflated the money supply and forced the central bank to issue even more costly TEMs.

With the new law, TEMs will gradually be phased out. The financial cost of the new paper issued by the central bank will be carried by the government, alleviating the bank's growing financial burden.

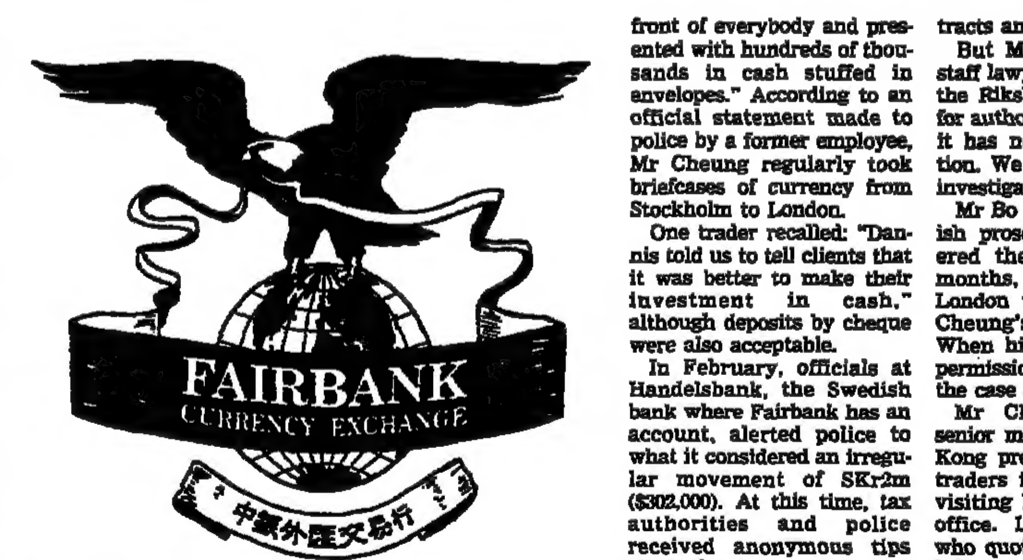
Critics warn that tightening monetary policy to soak up excess liquidity should not be a counterbalance to lax fiscal policy.

"Government expenditure has jumped 80 per cent in nominal terms over last year and the government must be careful that windfall oil revenue is not simply pumped into the economy, despite political pressure to do so," says Mr Pedro Palma, a Caracas economist.

NEWS: INTERNATIONAL

Currency trader played China card to entice ethnic investors

Clay Harris, Davrell Roberts Tien and Norma Cohen investigate the operations of a Swedish foreign exchange company with a London connection



Fairbank's logo: characters could be read 'Bank of China'

Fairbank, the currency trading group under scrutiny from Sweden's Serious Economic Crimes Squad, tax authorities and financial regulators, let little stand in the way of winning the trust of Chinese-speaking customers.

The Chinese characters for Fairbank, embossed in gold on the front of its English-language sales brochure, are *zhong yin*, which could be taken to mean *zhongguo yinhang*, or Bank of China.

Unlike the usual European pattern for speculative foreign exchange schemes, Fairbank did not rely on cold calling or lists of "leads" to reach potential investors. Instead it targeted a niche market of ethnic Chinese in Sweden, a population of less than 20,000.

In this, it followed the British example of Pagoda, a similar currency scheme previously operated by Mr Dannis Cheung, Fairbank's sole director and shareholder.

Pagoda is being investigated by the UK Serious Fraud Office and London's Metropolitan Police Fraud Squad over alleged misuse of $7.5m in investors' funds. Most of its customers were also ethnic Chinese.

Although Fairbank's investors have lost millions of kronor, according to police, few have complained publicly, probably to avoid attracting the attention of Swedish tax authorities to undeclared income.

In Fairbank's Stockholm office this week, Mr Cheung chose to be interviewed by telephone from a conference room rather than face to face. "We're simply a broker giving clients access to the foreign exchange spot market. Many of our clients have realised capital gains."

Fairbank recruited members of the Chinese community in Sweden to act as sales agents. Some of its traders lost their own money as well as that of customers.

In September 1995, Fairbank ran a series of Chinese language advertisements in Dagens Nyheter, Sweden's leading daily newspaper. The ads sought entry-level traders to sell and manage investments in short-term movements of currency.

Fairbank accepted nearly all applicants, offering them a monthly base salary of SKr4,000 ($603) and a crash course in the short term "rolling spot" foreign exchange market. Most of the trainees were originally from mainland China. A blend of unemployed academics, housewives and restaurant workers, they saw Fairbank as a rare white-collar career opening during a period of protracted high unemployment in Sweden.

Mainlanders also see Chinese people whose roots are in Hong Kong – like Mr Cheung and his senior managers – as having more financial sophistication.

Less than a fortnight into the course, trainees were told to place SKr50,000 ($7,550) of their own money with the company and to start trading on their own accounts to gain experience.

Initially, many of the novice traders appeared to realise easy profit. Hooked, they proceeded to gamble away the savings of friends and relatives they had recruited. A few who tried to leave after exhausting their own money were enticed to stay and trade on behalf of clients introduced by the management itself.

Unsuccessful traders were thus able to generate commissions and recover some of their own losses by churning – or over-trading – the accounts of new investors.

One regular sales technique was to ensure that a trader courting a new client carried a mobile telephone or bleeper so his pitch could be interrupted with the "news" that he was making a killing that day.

"Our company sales meetings were just like Cultural Revolution struggle sessions," said one former trader. "Those who failed to bring in new clients were singled out for public humiliation while one or two star salesmen were praised in front of everybody and presented with hundreds of thousands in cash stuffed in envelopes." According to an official statement made to police by a former employee, Mr Cheung regularly took briefcases of currency from Stockholm to London.

One trader recalled: "Dannis told us to tell clients that it was better to make their investment in cash," although deposits by cheque were also acceptable.

In February, officials at Handelsbank, the Swedish bank where Fairbank has an account, alerted police to what it considered an irregular movement of SKr2m ($302,000). At this time, tax authorities and police received anonymous tips about the company.

Swedish prosecutors have the discretion to refuse to open cases when conviction is not likely to draw a prison sentence. A senior police official commented: "The maximum penalty for trading currency without permission is six months' imprisonment, and that would be reduced to a fine".

Former staff are reluctant to speak publicly against Fairbank. They fear they themselves may have violated Swedish tax regulations. Most accepted Fairbank's explanation that since they placed trades by calling London, they were employed in the UK and thus exempt from Swedish income tax. Public tax records for several people employed full-time by Fairbank show no income tax returns for 1995. Tax authorities have been in contact with the police.

In October, lawyers at the Riksbank, Sweden's central bank, heard an account of Fairbank's activities from a former employee, who presented the bank with the firm's trading slips, contracts and sales materials.

But Mr Gent Jansson, a staff lawyer, said: "Although the Riksbank is responsible for authorising forex traders, it has no supervisory function. We have no powers of investigation."

Mr Bo Skarrinder, a Swedish prosecutor who considered the case for several months, planned a trip to London to inquire into Mr Cheung's role in Pagoda. When his superiors denied permission for the journey, the case remained in limbo.

Mr Cheung and other senior managers from Hong Kong prevented clients and traders in Stockholm from visiting Fairbank's London office. London employees who quoted prices to Stockholm never revealed their identities.

But employees in Stockholm had their suspicions aroused by the London operation. Traders who stayed up all night to follow markets in Tokyo often had to wait 10 to 20 rings before someone in London answered.

At one point in the spring of 1996 frustrated traders confronted Mr Cheung and demanded to send a delegation to London to see proof that trading was taking place. The leader of the revolt was summarily fired.

In July and August, the influx of new clients slowed to a trickle as only the most stubborn investors continued to put in fresh money after heavy losses.

Among the losers, anger often is not directed toward Mr Cheung, who always remained distant from day-to-day trading operations, but towards the traders who solicited funds from friends and relatives.

The mother of a former Fairbank trader spoke of violent threats to her son if he did not make good a former friend's losses.

Out of a sense of honour, several traders have committed to pay clients back by instalment. One former trader recalled a client's attitude: "'You're my friend – I trust you'; that was how our clients decided to invest."

Cheung keeps foot in the door at a familiar address

Before Fairbank, there was Pagoda. The ethnic Chinese who lost money through Mr Dannis Cheung's Swedish venture have many counterparts in Britain, who fell prey to a similar currency trading scheme. Pagoda is being investigated by the UK's Serious Fraud Office and London's Metropolitan Police Fraud Squad over the alleged misuse of $7.5m in investors' money. Most, but not all, of its customers were also ethnic Chinese.

Fairbank gets currency quotes from Pagoda's former premises

Fairbank and Pagoda shared one striking feature: they both targeted a population which seemed less likely to complain. Some victims may have been illegal aliens, while others, possibly recent immigrants, may have had limited skills in the local language.

Pagoda Currency Management Corporation was formed in 1993. Its directors, like Mr Cheung, all had Chinese surnames.

In January 1995, the company changed its name to Pagoda Foreign Exchange (London). Shortly afterwards, police and regulators began to receive complaints.

A 28-year-old waiter at a tandoori restaurant in Birmingham reported, for example, that he had been persuaded to invest his life savings of £3,000 ($4,920) by an employee of Pagoda in Birmingham. Within days, he was informed he had incurred losses and was being pressed for additional payments.

In September 1995, prompted in part by complaints about Pagoda and similar schemes, the Securities and Investments Board announced that companies offering "rolling spot forex", forward contracts of seven days or less, which are rolled over, would have to be regulated.

Pagoda informed the Securities and Futures Authority of its intention to apply for authorisation, but it withdrew its application on May 31 this year.

Mr Cheung, however, still had a foot in the SFA's door, and at a familiar address.

Currency Exchange Services (CES), whose application to the SFA is still pending, operates from 35 Old Compton Street in Soho, on the fringe of London's Chinatown.

Mr Cheung had previously listed this as his address in the records of Pagoda Foreign Exchange (London). It was also the address of Straker Promotions, another of Mr Cheung's companies, dissolved in January 1996.

Mr Kenneth Yeung, CES director, described as a "matter of coincidence" the fact that his company now occupies the same premises, but he is listed in Swedish company records as the "alternate director" of Currency Exchange Stockholm, the official name for Fairbank.

A Fairbank internal document describes the Soho address as its "administration and back office" and specifies "no visitors". Mr Yeung is listed as contact.

CES acts as an agent for Fairbank and keeps its records, according to Mr Yeung. It also supplies "indicated prices" to Fairbank traders calling from Sweden and receives $5 for each transaction, he said.

Mr Yeung said he was unclear about how Fairbank traded with the prices supplied by CES. He added: "I've been trying to find out myself. I suppose they must have other counter-parties."

CES has no other business other than acting for Fairbank, according to Mr Yeung. He said: "Dannis Cheung is not involved in Currency Exchange Services at all." Nor had Mr Yeung been involved in Pagoda.

Describing Mr Cheung as a "personal friend", Mr Yeung said they had little contact. They had met last month. "We had a drink and that was it," he said.

Mr Yeung's wife, Maria, is listed as the only other director of CES but Mr Kelvin Kwok, a director of Pagoda Foreign Exchange (Southampton), served as corporate secretary until March.

Mr Cheung was also, until March 1996, managing director of Danson Investments, a property investment company. According to the company's accounts for the year to September 3 1995, Mr Cheung entered into "unauthorised transactions".

A note to the accounts said: "During January 1996, [Wendy] Leung [Danson's other director] became aware of certain transactions entered into by D. Cheung of which W. Leung had no knowledge." In particular, Mr Cheung is said to have taken out a loan from National Westminster Bank in 1992 secured by a property owned by the company in Haymarket, London.

'Back office' seeks approval from UK regulator

Danson is now attempting to recover the £70,014 loan from Mr Cheung, according to the company's solicitor.

In June 1995, Mr Cheung – whose Chinese name is Cheung Yiu Ming – was convicted at Southwark Crown Court in London of two counts of passport forgery. He was ordered to pay £3,500 in fines and costs and to perform 200 hours of community service.

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Managers' and technicians' body ready to campaign at Fujitsu and other big investors

Union pushes for recognition at Siemens

By Chris Tighe
in Newcastle upon Tyne

Siemens is about to face a campaign to grant union recognition at its greenfield plant in north-east England, the area of the UK with the greatest success in securing factory investment from other countries.

The union, Manufacturing Science and Finance, said yesterday that if it made a breakthrough at Siemens it would turn attention to Fujitsu of Japan and the £120m ($196.8m) factory being developed by Interconnection Systems, the UK printed circuit board maker.

The union, for technicians and managers, will next week launch a recruitment drive among employees of the Siemens semiconductor plant in north Tyneside. "We are seeking to gain recognition because the electronics industry in the north-east is a boom industry," said MSF regional president Mr Bob Bolam.

MSF already has members among the Siemens workforce in North Tyneside, and hopes that if it can sign up more the company will agree to open negotiations on a single union recognition agreement.

Siemens other big UK manufacturing sites have union recognition deals but these plants are operations which the German electronics company acquired with an existing union structure.

The north Tyneside plant, the first phase of a projected £1.1bn investment, is Siemens' first UK greenfield site, and therefore provides a test of the company's stance on unionisation.

Siemens yesterday said the issue had not yet been decided. It added: "There hasn't been any semiconductor inward investor who has set up a union deal in the UK."

Persuading Siemens to recognise a union is a prime objective for the trades union movement in the north-east. In spite of the region's success in winning big inward investments, unions are worried they are losing ground.

In the mid 1980s the Japanese carmaker Nissan signed a single union deal at its Sunderland plant with the AEEU engineering and electrical workers' union. Since then few of the region's inward investors have granted collective representation rights to trade unions.

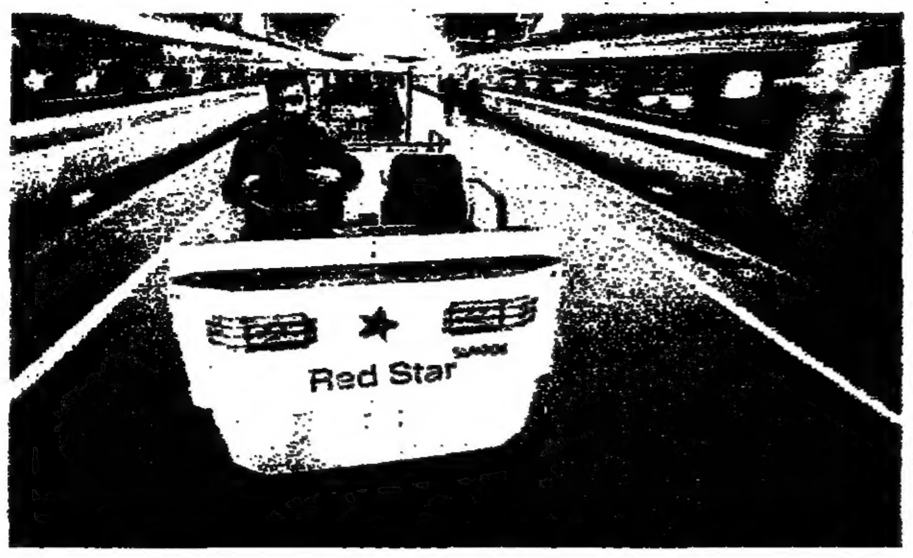
Plants with no union deal include two of the region's biggest investment coups, the £450m Teesside electronics complex of Korean-owned Samsung and the £400m County Durham semi-conductor plant set up by Fujitsu.

Mr Larry Brooke, MSF's national secretary for the electronics industry and co-ordinator of the joint union consultative body which meets Siemens at national levels, said the company at its last meeting with the unions had given a clear indication it had an "open mind" on union recognition.

The unions, including the TGWU and GMBU, will meet Siemens again in the New Year. "In the meantime we, and I guess other unions, are organising," said Mr Brooke.

Unattractive package may be improved

A state parcels business sold for £1 is due to make a £1m profit



Colin Beere
Moving forward: Red Star has a strong brand and a unique deal with train companies

Red Star, formerly the state-owned British Rail's heavily loss-making parcels business, will be an early test of whether the private sector can make money where a big publicly-owned corporation failed. Mr John Holmes, who led a management buy-out of the company, is trying to revitalise the business he acquired for a nominal £1 13 months ago.

He has a strong brand name which has survived several years of decline and retrenchment. He also has a unique seven-year contract transferred from BR to the privatised railway companies to use their trains for his parcels. This gives him a strong position at the premium end of the market for same day deliveries.

But against Mr Holmes is ranged an array of much bigger rivals, such as the state-owned Royal Mail's Parcelforce and the private-sector TNT and Parceline. All three have the financial muscle denied a heavily extended buy-out company.

Financing the depot network and the information technology systems to provide the level of service which the customer now demands is a tall order for a niche player such as Red Star.

BR's attempts to create a saleable business led it to jettison Red Star's slower services – for next day 12h00 and 15h30 delivery – to concentrate on the company's areas of strength – same day and next day 09h00 delivery.

This cut turnover from £43m ($70.5m) in 1993 to £20m in the year before the buy-out – though losses were still £9m at that stage. But even though a drastic cost-reduction programme was implemented – reducing staff numbers from nearly 1,300 to just 420 now – Red Star's new managers are still attempting to maintain an expensive network on a narrow business base.

"I question whether Red Star's niche is big enough to sustain it," says Mr Paul Jackson, chief executive of Triangle Management Services, an industry consultancy. "It needs other products but this takes it into markets which are very competitive and where prices are coming down."

Mr Holmes is now re-introducing the services dropped by BR. He is also expanding into specialist areas such as stockpiling and supplying parts for service engineers.

He is moving as fast as he can to franchise out counter and delivery services. He has found franchisees for 18 areas and, although selecting good franchisees is time-consuming, hopes to find 60 more by the end of next year.

Red Star's own employees will provide head office services and operate the computerised "track and trace" system, keeping customers in touch with their parcels.

While BR met the redundancy costs needed to create a saleable business, the present management has had to sort out the problems caused by the terms and conditions of employment which it inherited. Rates of pay have been cut but Red Star's payroll costs are still higher than those of its rivals, says Mr Holmes.

The first few months after the buy-out were marked by a continuing shrinkage but this has been reversed. Red Star made its first "modest" monthly net profit in October. It is on target to reduce the annual loss to £3m this year and expects to make a net profit of £1m on projected turnover of £22m in 1997.

He believes that a private sector management can succeed where BR struggled because it has brought a more commercial approach to what was a marginal business. But Mr Holmes still has to show that he has the answer to the problems which dissuaded many of the bigger parcels groups from bidding for Red Star when it was on offer.

Charles Batchelor

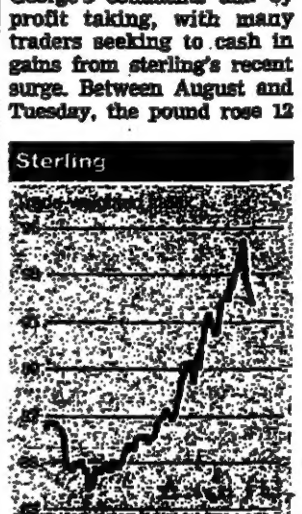
Pound falls for third day running

By Robert Chote
and Simon Kuper

The pound fell for the third day running yesterday after Mr Eddie George – governor of the Bank of England, the UK central bank – damped market expectations of a sharp rise in UK interest rates.

Mr George told the House of Commons Treasury committee that he saw no "urgent need for a dramatic step" on interest rates. But he did not rule out the need for a rise before the general election which is due by May next year.

The pound was hit by Mr George's comments and by profit taking, with many traders seeking to cash in gains from sterling's recent surge. Between August and Tuesday, the pound rose 12 per cent against a trade-weighted basket of currencies. It has since lost a quarter of that gain.



Currency strategists said that yesterday's sellers of sterling included companies hedging against the rising pound and big investors who were holding more of their assets in sterling than their internal guidelines suggested they should.

The pound closed in London yesterday at DM2.530 and $1.628. Mr George's comments, by reducing expectations of a rate rise, boosted short sterling futures contracts. These still point to a quarter-point base rate rise later this month, although most economists expect Mr Kenneth Clarke, chief finance minister, to wait before tightening policy.

The latest monthly survey of retailers from the Confederation of British Industry, the main employers' lobby, pointed to some slowing in the annual rate of spending growth last month, although the underlying trend remains strong.

Mr George assured MPs that, although the simultaneous strength of consumer demand and sterling in recent weeks was reminiscent of the 1980s boom, the upturn showed nothing like the intensity that had been experienced then.

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Protestants slam attacks on Catholic worshippers

By John Murray Brown
in Dublin

Leading anti-nationalist politicians in Northern Ireland are this weekend set to stand alongside the parishioners of a Roman Catholic church which has been the target for two months of a weekly picket by Protestant militants.

The Church of Our Lady in Harryville has become the focus for a dispute over rights to march. The politicians have taken a stand after a nearby Catholic school was firebombed on Wednesday and petrol bombs were thrown into two Catholic families' homes .

Violence was triggered in the summer as police forced Catholic protestors off the road ahead of a march by members of the Protestant Orange Order in Drumcree.

Yesterday saw the first sign of a Protestant split. Mr Ian Paisley jr, son of the leader of the hardline Democratic Unionist party, dismissed as a "stunt" the announcement that Mr David Ervine, Progressive Unionist party leader, would stand alongside Catholics at Harryville in support of the Roman Catholic parishioners. Mr Ervine's party is the political wing of the outlawed Protestant Ulster Volunteer Force.

A survey published yesterday by the Police Authority of Northern Ireland showed low Catholic confidence in the security services. Some 78 per cent of Catholics believed the Royal Ulster Constabulary, the region's police force, should be reformed or replaced. Mr Pat Armstrong, police authority chairman, said he was "saddened but not surprised by the results."

● About 10,000 vehicles a day are expected to be diverted or discouraged from entering London's financial centre under a scheme approved yesterday by the City's municipal authority, Jimmy Burns writes.

Councillors supported enlargement of the ring of road closures and anti-terrorist checkpoints in the City. Traffic restrictions were set up after the Bishopsgate bombing by the Irish Republican Army in 1993.

Move to reassure hospital investors

By Mark Suzman,
Social Affairs Correspondent

Mr Stephen Dorrell, chief health minister, aims to rescue the troubled Private Finance Initiative (PFI) in the state health service by providing written assurances on funding for the first hospital projects.

The unusual step is intended to meet concerns from lenders that the government might not meet the liabilities of hospital trusts – local hospital administrations – in the event of their failure to meet payments. The PFI aims to attract private funding to many kinds of public project.

Mr Dorrell hopes the move will help to break the logjam that has affected PFI in the health sector.

Over the past year, 23 hospital PFI schemes worth over £20m ($32.8m) have named approved private-sector bidders, six have received Treasury approval and two have reached commercial agreement. But no final contracts have been signed because banks are not yet convinced they have adequate security.

The problem arises out of the decentralised structure of the health service after reforms in 1991. PFI deals now have to be negotiated between bidding consortia and individual trusts, rather than the government.

Lenders are concerned that the government could avoid having to meet a defunct trust's outstanding liabilities by refusing to dissolve a trust that is failing.

BBC chief suggests deal with Murdoch

By Liam Halligan
and Raymond Snoddy

BBC executives yesterday told a House of Commons committee that the corporation could not launch digital satellite services without using British Sky Broadcasting receiving equipment, but suggested that a deal might be possible. The BBC is the national public service broadcaster and BSkyB is the satellite television in which Mr Rupert Murdoch's media conglomerate is the biggest stakeholder.

The BBC has been trying to persuade the government to ensure "fair and reasonable" access to digital set-top boxes needed to receive up to 200 digital television channels planned for next year.

Giving evidence to the heritage committee, Mr John Birt, BBC director-general, said: "We accept the de facto reality that Sky are the pioneers in this area. The only way we can provide digital satellite services is through Sky's set-top decoder boxes."

Sir Christopher Bland, BBC chairman, said: "I would call Mr Murdoch extremely clever and extremely powerful. It may be possible to negotiate a deal with him."

He added that such a deal would have to be within "an appropriate regulatory structure established by the government".

Mr Birt added: "It would be in the interests of the consumer if all satellite systems were launched using a common technology."

BSkyB yesterday welcomed the BBC's comments. It said it was willing to licence its technology and wanted a deal with the BBC to ensure its new channels would be part of the new digital package.

UK NEWS DIGEST

Suit over bonus at Barings fails

Ms Mary Walz, the former head of equity derivatives trading at Barings, the collapsed merchant banking group, yesterday lost her claim to be paid a £500,000 ($820,000) bonus she alleged was promised to her hours before the discovery of catastrophic losses. Ms Walz was dismissed after the bank's collapse caused by £830m of derivatives trading losses built up by Mr Nick Leeson.

An industrial tribunal ruled that a conversation on the afternoon of February 23 1995 between Ms Walz and Mr Andrew Tuckey, deputy chairman of the bank, did not constitute a firm commitment.

Ms Walz is facing a separate action by the Securities and Futures Authority, the City regulator, which is to consider whether she should be banned from working as a manager in an investment bank. Ms Walz said last night that she did not intend to appeal. She had made her claim "to isolate what was strictly an employment issue from the complexities of the tragedy of the collapse of Barings", she said. Mr Ian Pritchard-Witts, tribunal chairman, ruled that a slip of paper on which Mr Tuckey had written Ms Walz's name and the figure £500,000 did not constitute a binding contract. *John Gapper*

■ LONDON STOCK EXCHANGE

Big provision for restructuring

The London Stock Exchange yesterday disclosed that it had made a big provision – thought to be more than £25m ($41m) – in the first half of the year to cover the costs of reducing staff and implementing new share trading methods. The exchange disclosed that its first half income rose from £94.3m to £105.5m, while costs dropped slightly to £65.6m from £67.9m. After making its provision and paying tax, it was left with a surplus of £9.7m.

The exchange also named the chairmen of its new committees that help to formulate policy. Mr Ian Salter, of *Société Générale*, will chair its primary markets committee, and Mr Hector Sants, of Union Bank of Switzerland, will chair a secondary markets committee. *John Gapper*

■ SCANDEX CAPITAL MANAGEMENT

Winding-up shifts to Denmark

Full responsibility for the winding up of Scandex Capital Management is likely to move to Denmark, ending the role of a provisional liquidator appointed by the High Court in London. Scandex was a Copenhagen-based currency trading company with 600 to 700 customers – many based in the UK – who lost more than £1m ($1.6m). It is the subject of legal proceedings brought in London by the Securities and Investments Board, the City regulator.

In the High Court yesterday, the hearing of a winding up petition brought by Mr Jeremy Bartholomew-White, Scandex's managing director, was adjourned until January. He had previously given an undertaking to the High Court, at the request of SIB, to seek a winding up. *Clay Harris*

■ GENETIC ENGINEERING

Chefs protest over 'tainted' food

Many of London's leading chefs and restaurateurs protested yesterday at what they consider a threat to the supply of fresh, untainted produce. The chefs were voicing concern at the principle of genetically engineered food and, in particular, the arrival in Europe last week of genetically engineered soya beans from the US. The products will not be labelled, and chefs are concerned they will not know what they are buying. *Nicholas Lander*

Editorial Comment, Page 13

■ EDUCATION

'Calculator-free' maths urged

A a return to traditional pre-20th century texts in A level English Literature and the introduction of "calculator-free" maths papers are among a package of government proposals designed to safeguard standards. A government survey showed "a trade-off of breadth for depth" leading to a reduced emphasis on basic skills like spelling, punctuation, grammar and mental arithmetic. Universities choose students on the basis of their results in A level exams at school. *Simon Targett*

■ CIGARETTES

Number of smokers dwindles

Britain's smokers are giving up in their thousands, according to research by retail consultants Verdict. Today just 27 per cent of the UK population smokes, compared with 45 per cent in 1974. Although more women are smoking than ever before, growing concern over health risks and the sharp rise in the tax on cigarettes has depressed the overall market for tobacco. Over the last five years tobacco duty has increased by 40 per cent, and now accounts for 78 per cent of the price of a packet of 20 cigarettes. *Peggy Hollinger*

MANAGEMENT

John Kay

What's in a name

Branded goods send signs to consumers about the value and quality of the product that another name may not

What is a brand? A rose by any other name, Shakespeare pointed out, would smell as sweet. There is a difference between a name and a brand.

You are reading an article by John Kay. But John Kay makes the transition from name on the masthead to brand only when attaching it to the contents persuades you to read the article, or pay attention to it – and if you would ignore the same piece if it appeared under someone else's name. Once that happens – but only when that happens – I have a brand with a value.

You will not admire the scent of a stinging nettle because I label it a rose, and that is why rose is a description of a fine product, rather than a brand.

You use electricity because it illuminates your light bulb, not because it is called electricity; you go to Euston Station because that is where the trains for Birmingham and Manchester are, not because it is Euston Station. Roses, electricity and Euston Station all have values, but not brand values.

A brand is worth more than a functionally equivalent product. You pay far more for a bottle of Chanel No 5 than for a bottle of liquid whose smell is indistinguishable.

And that is what makes clear to us that roses, electricity and Euston are not brands. No sensible person would shell out their cash to be allowed to describe a nettle as a rose, to label coal as solid electricity, or to call a bus depot Euston Station.

But you would like to be able to call your fizzy soft drink Coca Cola, to offer legal advice under the brand name of Linklaters and Paines, and to put up a Hertz sign outside your car-hire agency. People can and do pay money for access to these brands. The brand adds value even if the product is unchanged.

So what gives a brand that value? Why would people pay more when they can get the same for less? Most often, marketeers will tell us, because they do not think it is the same.

You feel seductive when you splash on Chanel No 5, but you will never derive the same confidence from a whiff of anonymous scent, even if you would need a trained perfumier to tell the difference.

Perhaps. Perfume is certainly a commodity that appeals to irrational instincts. And there are goods where the brand encourages people to make statements about themselves to others. I am irresistible, I say, as I put on my designer fragrance. I am a merchant banker, I say, as I climb out of my BMW: I am a juvenile lout, I say, as I down a glass of extra-strong lager. I am handsome, I say, as I don my Levi's jeans.

Some brands are of this kind. Mostly, these brands apply to commodities such as clothes, drinks, cars and cigarettes, which you consume consciously in the presence of other people.

And as with any signal, the brand as signal has its value eroded when people use the signal in misleading ways.

> I am irresistible, I say, as I spray my designer fragrance. I am a merchant banker, I say, as I climb out of my BMW. I am handsome, I say, as I don my Levi's

Since the shop will sell you Levi's whether you are handsome or not, the illusion that you will be handsome if you wear them is hard to sustain.

To survive, the brand as signal has to remain exclusive, either because not everyone wishes to give the signal – football fans drink extra-strength lagers, the Queen Mother does not – or because the signal keeps people out by virtue of its expense. The most enduring of such brands are symbols of affluence, such as Rolls Royce and Moët et Chandon.

But while you certainly need to be affluent to enjoy the services of a City law firm, not many people use Linklaters & Paines in the hope that their friends will be impressed when they see them coming out of their offices. Or hire a Hertz car in order to display the discreet No 1 logo in the rear windows of their Fiat Panda.

You go to Linklaters because you think you will get good advice. You hire from Hertz because you don't expect that the car will break down and you know that Hertz will fix it if it does.

The most important function of brands is quality certification. Other lawyers may give you equally good advice, but you can't be sure. Other companies may rent reliable cars, but when you visit a foreign city for the first time, how do you know?

For goods where it is difficult for consumers to judge quality for themselves, the reputation associated with a powerful brand may have considerable value. Most of the brands that command large price premiums are of this kind.

They are found in industries where product quality is important to consumers but is not easy to assess, as for legal services, medicines, or financial services.

Or they are found where people care about the quality of the goods concerned but don't like discussing that with their friends, as for toilet paper, contraceptives and sanitary towels.

And that is the mechanism by which names turn into brands. No doubt Mr Linklater and Mr Paine were fine lawyers in their time.

Other good lawyers realised that they could make the level of their skills known to potential clients by attaching themselves to the coattails of Mr Linklater and Mr Paine.

And Mr Linklater and Mr Paine themselves could make a turn by selling out the services of such lawyers for more than they had to pay them. This process enabled the reputation of Mr Linklater and Mr Paine to outlive the individuals concerned.

A solicitor can turn with confidence to Halsbury's Laws of England, not so much because he trusts the integrity and reliability of Lord Halsbury, who has been dead for the best part of a century, but because the publishers have an incentive to maintain the value of the brand that Lord Halsbury established.

In the same way, the Financial Times has an incentive to maintain the quality and reliability of the material which appears on its pages.

And John Kay has an incentive to keep up the standard of his columns. That way, he might turn a name into a brand.

John Kay is the chairman of London Economics and director of the School of Management Studies at Oxford University

TECHNOLOGY

Woody: the speech-challenged cowboy could get a wider vocabulary

Dynamics at play

Victoria Griffith on toys with interactive improvements

Woody the cowboy, a Walt Disney toy based on the phenomenally successful *Toy Story* movie, says: "Howdy Partner". Press the button again and he spits out: "There's a snake in my boot!".

Amusing, yes, but the problem is that Woody knows just five phrases. Even for a five-year-old, that can get pretty tiresome.

While the film *Toy Story* used dazzling computer technology to work its magic, kids' products based on the movie seem mired in the dark ages. The only important change in talking toys since the 1960s is that they are sometimes activated with buttons rather than strings – a pathetically small step considering the technological advances of the past three decades.

A new project at the Massachusetts Institute of Technology's Media Laboratory, however, is trying to bring toys into the age of multimedia. Researchers Rob Poor and Manish Tuteja are using wireless technology and the Internet to expand the vocabulary and interactivity of toys like Woody.

Unlike the off-the-shelf Woody, the Media Laboratory's cowboy greets people by name, introduces them to each other, announces the time when a clock comes into view, and offers an expanded repertoire of sayings, such as "Got a dime for a cup of coffee?"

The possibilities, say Poor and Tuteja, are endless. "By being programmed over the Internet, Woody can sing *Happy Birthday To You* on a kid's birthday, read books, and tell a child it's bedtime," says Poor. The technology applies to moving toys as well. A doll that crawls one day could be made to walk the next.

The technological know-how to make toys a lot more interesting has been around for some time: any plaything can be equipped with the same capability as a sophisticated computer.

Yet complex computers as toys are not very practical. For one thing, they would weigh at least as much as a bowling ball – not the sort of thing a child usually drags into bed. Another problem is price.

Few parents are willing to pay $3,000 for a toy, no matter how entertaining it is.

The Internet, however, has the potential to change the cost and weight dynamics. Using wireless technology, a plaything can be geared to broadcast information channeled through the personal computer. Under this model, most of the computer power is contained in a remote location that processes information for thousands of customers. The toy is turned into a digital radio: lightweight, low-cost, and, if well-designed, extremely amusing.

The toys become further personalised through the use of cheap identification codes attached to people and objects. Through the use of simple digital tags, the Media Laboratory's Woody responds to a host of signals. He introduces his friend Mort the penguin and converses with fellow *Toy Story* character Buzz Lightyear. If a guest wears a special name tag, Woody will even make introductions to the researchers.

Despite the ready technology, toy companies are not racing to get such products to the shops. Walt Disney, one of the main sponsors of the project, says it has no plans to use the research soon.

One reason for the reluctance may be problems in pricing. "Sometimes I see what they're doing with the Internet toys at the Media Laboratory and think – why isn't someone making these?" says David Morgan, vice-president of technical assessment for the multimedia division of Motorola, a sponsor of the project. "But it may be partly because of confusion over how consumers would pay for the service."

It is uncertain, for instance, whether consumers should pay for the Internet programming upfront when they purchase a toy, or whether they should pay a monthly service based on usage.

"You need to pull together a lot of elements here: someone to organise the websites that would programme the toys, a service to broadcast the programming, and the toy itself," says Morgan.

Other practical difficulties exist. To programme a wireless toy through the personal computer, for instance, the customer would have to be hooked up to the Internet all the time. That could generate some large service and electricity bills. Another solution – hooking up the plaything by wire to a modem, and downloading information periodically – may be more workable, but would require the toy to hold more memory – resurrecting cost and weight problems.

As a provider of wireless technology, Motorola believes it can help solve the problem. "The signals don't have to come through the computer; they could come over the telephone wire, the television cable, or a tiny box in the corner of the room," says Tuteja. The box in the corner could, in theory, be provided by Motorola.

In the long run, Morgan is convinced the technology can be put to good use, not just for toys, but for all sorts of household objects. "Motorola is interested in this for programming everything in the house," says Morgan. "It could get the toaster oven to turn on at a certain time, or cause household clocks to change automatically when daylight savings time ends."

Researchers at the Media Laboratory are convinced their technology will soon be commercially available. "It just takes one company to decide there's a market here," says Poor. "The technology is already do-able."

This Christmas, however, children will have to be happy with a speech-challenged Woody. That's not so bad. When the Disney cowboy screams "Yee Haw!", he may not be at the cutting edge, but he's bound to put a smile on many young faces.

THE PROPERTY MARKET

Mushroom growth

Malaysia will soon have a glut of space, says James Kynge

Financiers willing, one of the most world's most extraordinary buildings will take shape in Malaysia in a few months.

Near the world's tallest office blocks, the Petronas towers, earthmovers and cranes are to start work around the middle of next year on what is to be the world's longest building. Gigaworld – supported on stilts – should snake for 1.8km over the River Klang in Kuala Lumpur.

An artificial river will run through the centre of the building. Customers will be able to take indoor boat rides from shop to shop. Restaurants are to be built in view of vast glass tanks where scuba divers will glide and bubble. Indoor rock climbing will be on offer, and recorded birdsong will be piped among the rockeries and waterfalls of a section called "nature world".

Hotels, offices, shopping malls and recreation centres are planned for Gigaworld's bright and airy precincts.

"It will be your global address in Asia," says David Chew, managing director of KL Linear City, the company which has won a government concession to make the project a reality.

Mr Chew is convinced that the building will provoke the advent of a new lifestyle, with people demanding that their workplaces combine the tranquillity of nature with the efficiency of the modern office and the convenience of a shopping mall.

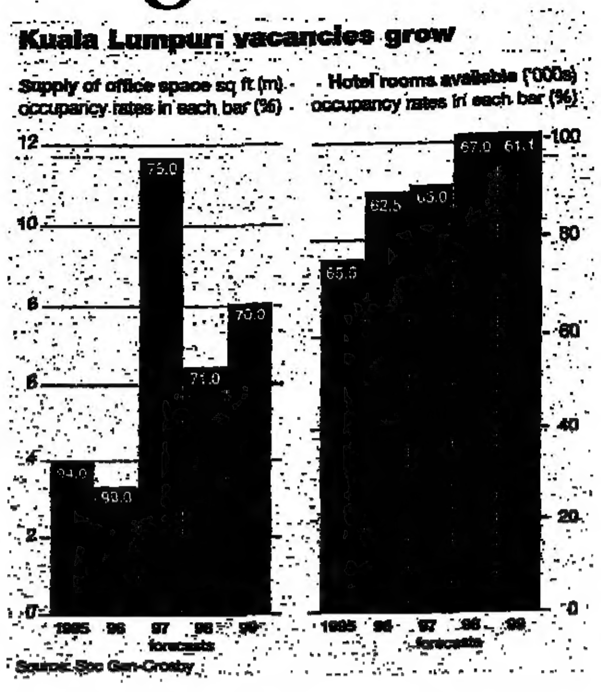
Mahathir Mohamad, the prime minister, firmly supports the project, but he made it clear recently that the financial risk for Gigaworld will rest squarely on the shareholders of KL Linear City and whoever emerges over the next few months as the project's financial backer.

The first phase of Gigaworld is expected to be completed by 1999 – when all main sectors of Kuala Lumpur's property market are expected to be suffering from overcapacity.

Kuala Lumpur property analysts predict a plethora of problems in the office, retail and hotel sectors from next year. The situation is being caused partly by the government's desire to make the capital a showcase for the Commonwealth Games in September 1998. Paradoxically, many analysts believe that prestige projects such as Gigaworld will be immune from the worst of the shakedown.

"It is unlikely to be premier commercial space – such as that offered by the KLCC [Petronas towers] – which takes the brunt of any property downturn," says Dominic Armstrong, head of research at Pesaka Jardine Fleming. "The downturn is likely to be felt among second or third-tier properties as companies leave them to move into intelligent buildings," he says.

The twin tower, 88-storey KLCC, which by most yardsticks is considered taller than Chicago's Sears building, is expected to put about 4m sq ft of space on the market when it is completed in the second half of next year. That will contribute significantly to overall new supply of 11.7m sq ft in and around the capital next year, bringing total office space to an estimated 51.9m. Brokerage house analysts predict another 6.5m in 1998 and 8.08m in 1999.



The resulting glut will reduce occupancy rates from today's 90 per cent to about 75 per cent next year and 70 per cent in 1999, property company analysts say. Prices at prime sites are expected to hold up. KLCC has not yet announced its rental rates but market analysts say it could charge as much as M$15 a sq ft, compared with a current Class A average of M$5.50 to M$7 a sq ft.

"The KLCC will not be allowed to stand empty. It is a national project. Companies wanting to gain favour with the government will do their 'national service' and rent space," says an analyst who declines to be named.

The situation is, if anything, even more bleak for hotels. About 38 hotels are scheduled to be completed by the time the Commonwealth Games start. The supply of rooms in Kuala Lumpur is expected to increase from about 76,000 last year to 101,000 in 1998. Occupancy rates in 1998 are expected to be relatively buoyant at 67 per cent, mainly because of the games, but could fall to 61 per cent in 1999, property analysts say.

There is already a chronic shortage of qualified staff. More immigrant workers from Indonesia, the Philippines and other countries in the region are likely to be brought in to serve the new hotels. Qualified staff will be able to demand wage increases of about 15 per cent, in a country where inflation is steady at just over 3 per cent. While lower occupancy and stiffer competition could lead to a fall in room charges, hotels are likely to see their profit margins squeezed by wages rising faster than productivity.

In retail the outlook is little different. Already Malaysians are spoilt for choice as new shopping malls mushroom all over the capital. But available retail space is expected to swell from about 15.6m sq ft at the end of this year to 32m sq ft at the end of 1998. Several big names such as Isetan, the Japanese retailer, have rented space only to close down soon after. Generally, there is a drift to the better known malls such as Starhill and Lot 10, owned by Taiping Consolidated, while smaller and more remote shopping centres suffer.

But in spite of all the doomsaying, vacant land prices do not appear to have been hit. Vacant land in prime areas of Kuala Lumpur goes for between M$700 and M$900 a sq ft and the price has been relatively stable.

Sometimes, however, there are surprises. Malaysian Resources Corporation recently sold 3.14 acres of land for commercial development at an attractive prime site for a record M$1,000 a sq ft. "It is difficult to understand such a price in the current climate," says one property company executive.

But whether the predicted oversupply translates into a market crash will depend on several factors, especially the country's economic growth rate. If there is a crash, analysts say, it is unlikely to have Japanese-style implications. Only 27 per cent of bank lending is to the property sector and relatively few listed companies are dependent on property holdings.

Sponsorship/**Antony Thorncroft**

Sweetener for the Tate

The Tate Gallery in London is to open on Sunday mornings from February. This should prevent the depressing spectacle of the gallery closing its doors on Sunday afternoons because the crush of people makes viewing impossible.

The Sunday opening is part of the celebration of the Tate's centenary year. The gallery, the gift of Sir Henry Tate, opened in July 1897. Next July there will be show of Sir Henry's other benefaction, his collection of 67 works of art. It will be sponsored by Tate & Lyle, the first time the sugar company has sponsored an exhibition at the Tate.

Although the Tate attracts between £1.5m-£2m a year from sponsors, 1997 will be a relatively quiet year for corporate support. But 1998 will be very different. In the autumn Morgan Stanley embarks on its first major arts sponsorship, supporting a major exhibition of the work of the Anglo-American portrait painter and landscape artist John Singer Sargent.

In the past the merchant bank has supported community and educational projects in east London – it is now the biggest employer in Docklands – notably the Spitalfields Festival with £10,000 a year. Now it is going for the big time, with the aim of raising its profile and entertaining clients and prospective clients. The involvement will cost around £500,000 in total.

Earlier in 1998 the Tate will be mounting a Bonnard show which will mark its third mega-sponsorship deal with Ernst & Young. The consultants invested £1m in both the Picasso and Cézanne exhibitions, and was so happy with the results that the company is coming back for more. Also in 1998 Ernst & Young is sponsoring the big Monet show at the Royal Academy: without doubt it will be the largest supporter of the arts in the UK that year.

Ernst & Young is also the first company to commit itself to the Tate Gallery of Modern Art on Bankside. It is paying the running costs of the visitors' centre which has opened on the site to keep locals and tourists informed about the progress of the conversion of the old power station into a £130m gallery. The cost to Ernst & Young will comfortably exceed £100,000 by the time the gallery opens in May 2000.

★

Arts sponsorship coverage tends to be about companies; it should be about individuals. For it is individuals with a passion for the arts who more often than not sway their doubting colleagues in business to go for it, and back the arts.

Once a year individuals are honoured with the Goodman and Garrett Awards, named after the two men, the late Lord Goodman and James Garrett, who virtually created the Association for Business Sponsorship of the Arts. The 1996 Goodman Award for an arts volunteer went to James Joll, the former finance director of Pearson and now chairman of the Museums and Galleries Commission, who was behind many major Pearson sponsorships culminating in this year's William Morris show at the Victoria & Albert Museum. The Garrett Award to a sponsorship professional went to Susan Jones, who has turned Manchester Airport into one of the largest and most imaginative sponsors in the UK – as well as a successful airport.

★

Staying with individuals, Belle Shenkman was one of the great characters of arts sponsorship, as famous for her exquisitely arranged parties after events as for the events themselves. She persuaded such tough individuals as John Egan of Jaguar to sponsor the arts and was just as active promoting tours to the UK of the arts companies of her native Canada.

She died last year and is being remembered by her children, William and Dasha, in a series of free evening concerts at the National Gallery. But the Belle Shenkman concerts are more of a chantry than a series. The young Shenkmans have agreed to support the concerts every Wednesday evening, when the NG stays open until 8 pm, for ten years, making it one of the longest arts sponsorship commitments ever. This generous gesture – the cost is in excess of £100,000 – also supports one of Belle Shenkmans's other good causes, the Royal College of Music: students from the College will provide the music.

And there will be more. Negotiations are under way to perpetuate Belle Shenkman's name at another cultural institution with which she was closely associated, the Royal Academy of Arts.

★

The TI Group is few people's idea of a modern Medici. Yet TI is becoming one of the UK's leading patrons of contemporary art.

It began by chance, when the company rationalised its HQ into an industrial site at Amersham. In the classic tradition, the chairman's wife said the austere bare walls cried out for art. TI did not mess about. It went straight to the Royal College of Art and, on the advice of fine art Professor Paul Huxley, set about buying the work of RCA students, past and present.

It now owns 115 paintings and is so carried away with its ambition that it is extending the scheme to its overseas subsidiaries and planning to set up a Foundation to secure its future. With between £50,000 and £100,000 to spend each year on art it is already a major player. It also funds a student each year at the RCA, and buys many of the works for its collection at student shows. Among the good buys are paintings by Chantal Joffe and Philip Jones, and one at least of its protégés could become the next David Hockney. Even if TI does not hit on a megastar the collection, at the latest valuation, has already shown an annual appreciation of 22 per cent per annum.

Ballet

In love with the waltz

It is worth travelling a long way to see Balanchine's *Liebeslieder Waltzer* – much further than Toulouse's enchanting Théâtre du Capitole where I saw it last week. Balanchine loved the waltz, and he knew everything about it: how it can be set in a big classic spectacle (his *Sleeping Beauty* waltz is super-Petipa); how its romance can speak to us today, when no-one waltzes but people still love watching it, as we know from such big works as *Vienna Waltzes* or *Liebeslieder Waltzer* or *La Valse*. In these he explores romance, nostalgia, the intoxications of three/four time, and the resonance of feeling implicit in a woman, grandly gowned, borne in the arms of her cavalier and borne on the pulse of the music as her dress streams and flares over the dance itself.

Liesbeslieder is very special even in this company. Brahms uses domestic forces – a quartet of singers; two pianists at one piano – and this inspired Balanchine to domestic means for part of the time, too. His four couples are seen in ball-room (he wanted the setting to be like Munich's Amalienburg Palace), their feelings those intimacies and frissons of passion or sadness that may colour a couple's dancing.

The first part is the most audacious. The women in long dresses and heeled shoes, the men in stylised evening dress, explore the potential of the waltz itself as social dance. An 18th-century ballet-master once remarked "Que de choses dans un menuet", and Balanchine echoes him – how many things there are in these waltzes. Variety of tempo, of steps as they elaborate or transmute; variety of feeling, of formal structure. The piece is a transcendental display (masked under its graceful surface) of creative skill. It is insidious, miraculous, and done with the blithest air by Balanchine and, in good performance, by his artists.

For the *Neues Liebeslieder* set, Amalienburg's doors have opened on to the night air, and the women are now in shorter dresses and ballet-shoes. The men simply shed their gloves. The waltz is somehow freed, the emotions seem more clear, but at the end – as Goethe's poem tells of love's disquiets – the women return in their long dresses, and we (and they) contemplate what has just ended. It is a work of astonishing and ever-fresh beauty, and the dancers of the Ballet du Capitole are splendid in it. Theatre and stage are the right size for these intimacies. The staging is by Karin von Aroldingen (who waltzed sublimely in Balanchine choreography) and Sara Leland, and the design by Nicolas de Lajarte recreates the silvery elegance of Amalienburg to the life. (It does seem a bit grand, but is ravishing.)

The Toulouse company is now directed by the American dancer and teacher Nanette Glushak (a former director of Scottish Ballet) and she and von Aroldingen have inspired the cast to recognise these dances for what their title calls them: love songs. I salute the four couples – Paola Pagano, Christophe Maraval, Frederique Vivan, Yevgeny Slepov, Anne Frenois, Peter Mason, Macha Daudel, Luca Tozzi – for their performances had the right sensitivities to feeling and a proper delight in the marvels they were given to dance. The ballet was truly itself.

The music was no less admirable. The singers – Regine Hermann, Katharine Goeldner, Donald George, Thierry Felix – were excellently matched. The pianists – Robert Gonnella, Philippe Montferran, merit no less praise.

The second part of the evening was devoted to Margo Sappington's *Rodin mis en vie*. I am at some disadvantage with this piece, which I have known over the past 20 years, and which I think looks like nothing so much as Soviet choreography of the 1950s, with straining bodies registering a lot of spurious emotion. I am also what may be called Rodin-immune, and even more immune to the orchestral stickinesses of Michael Kamen's score. To watch a collection of dancers impersonating statues all over the stage, and making a meal of every move, is not an activity I choose often to indulge in. I am sure everyone was perfectly splendid, and the Toulouse audience had a whale of a time. I kept thinking of waltzes – and was made happier than I otherwise would have been.

Clement Crisp

Exploring the potential of the waltz as social dance: Peter Mason and Anne Frenois dance Balanchine's 'LiebesliederWaltzer' in the Théâtre du Capitole, Toulouse

Concert/**Andrew Clark**

Requiem for youth

The 20th anniversary of the death of Britten might have gone unnoticed on Wednesday, were it not for a performance of the *War Requiem* in Westminster Cathedral organised by London's Royal College of Music. As originally intended by Britten for the 1962 Coventry premiere, it brought together soloists from the three countries most directly involved in the conflict it commemorates – Britain, Germany and Russia.

Unlike Pears, Fischer-Dieskau and Vishnevskaya, however, the soloists on this occasion were relatively inexperienced, and the RCM chorus was augmented by singers from conservatoires in 11 other countries, including Israel. The result not only conveyed the naked truthfulness of the composer's inspiration; it did so with a freshness of response and purity of address that one rarely encounters with professionals.

It is tempting, but erroneous, to say the *War Requiem* interprets itself. What it needs is a conductor who can organise large forces in multi-layered material, an orchestra with brilliant principals, a well-tuned chorus and soloists capable of projecting more than just the text. A cathedral setting helps. Once these are in place, Britten's interpolation of the Owen poems in the Latin liturgy, and his eerily effective music, can be relied upon to do the rest.

That the RCM met these criteria is a reflection of its current standards and the skill of the conductor, Steuart Bedford. Balances were particularly well judged – for which the Westminster Cathedral choristers, concealed in the chancel, deserve equal credit. Instrumental detail in the chamber ensembles was projected with clarity and imagination, especially from the *Budd*-like woodwind choirs.

The fugal repetitions of the *Offertorium* lost none of their precision in the boomy acoustic, and the tapering of the choral decrescendos showed just how carefully the performance had been prepared. Bedford's linear approach may have underplayed the dramatic contrasts, particularly in the menacing *Dies Irae*, but it reinforced the work's organic unity.

Thanks to the youthfulness of the soloists, the idea of spoiled innocence – a recurrent Britten theme which is often missed in the *War Requiem* – was well to the fore. With his bright timbre, clarion diction and beautifully hung phrasing, Mark Wilde proved himself a naturally expressive Britten tenor.

The baritone Johannes Beck, refreshingly un-Germanic in timbre, was an intelligent foil, despite his modest projection. In the soprano part, Iana Ivanilova gave notice of a magnificent instrument, used with emotional detachment.

In sum, this was a warm and dedicated, rather than intense, interpretation, which captured the message of grief and reconciliation in moving terms. Well over 300 participants were listed in the programme – all except the driving force behind the project, Neil Mackie (the RCM's head of vocal studies), to whom special thanks are due.

Theatre/**David Murray**

All sweat and tangas

Ian Judge's RSC production of *Troilus and Cressida* has come up from Stratford-on-Avon to the Barbican. *Troilus* is not among the favoured Shakespeare plays that come round regularly (it is perhaps thought to be too raunchy for A-levels), so we want it to be lucid and not overly kinked. That is what Judge gives us: a near-complete text, mostly well spoken, in a staging that has its epic passages and some teasing slants.

The main slant is toward sweaty, homerically masculine affairs. The women – Cassandra, Helen, Andromache and Cressida herself – live only on the margins of the real (but meaningless) action, a blind sporting contest between the Trojan guys and the Greeks.

In thongs and tangas, the men preen, pose and compete to the death. While Cressida's lubricious uncle Pandarus identifies the Trojan heroes for her, Judge has them stripping off for a steam-bath. Achilles and his tall young friend Patroclus exchange long, manly kisses, as little disturbed by Thersites' nasty jeers as any Gay Lib activists would be.

Judge paces the larger action very well, all the way to the final scenes of inevitable, irrational slaughter. The slighter but crucial thread, young Troilus's passionate connection with Cressida, is not so happy. Victoria Hamilton's pretty Cressida is a touching little minx, not more, while Joseph Fiennes pulls out the *vox humana* stop early on – with added tremolo – and never turns it off: his strangulated bleat becomes a whine long before the end.

The other men are sturdy and interesting. Philip Voss makes the wily Ulysses smooth and reptilian, apparently without any game-plan of his own – a wheeler-dealer with no purposes. Louis Hillyer finds more substance in Hector, pragmatically decent, than one expects. Clive Francis is a superbly creepy Pandarus. As burly Ajax, Ross O'Hennessy looks to have been put on steroids for the season, but he plays him less clownishly than usual.

Generally the characterisations are sharp, though Philip Quast's Achilles remains a bit of a cipher. As Thersites, Richard McCabe makes a flamboyant start with the Prologue, but soon declines into conventional growls and subversive mutters; during the last battles, Judge has him dashing to the forestage to bellow an angry line or two and then fleeing again.

There is a lot of stage-smoke to go with the military un-dress and macho capering. The big argumentative speeches are solidly delivered, and make us listen hard. A sense of cynical futility hangs over all the proceedings, unleavened by anything humane. It is a defensible reading of the play, of course, and grittily consistent.

We watch it fascinated and repelled.

In repertoire at the Barbican Theatre, to March 25.

INTERNATIONAL

ARTS GUIDE

AMSTERDAM

CONCERT
Concertgebouw
Tel: 31-20-6718345
● Arabella: by R. Strauss. Concert performance, conducted by Edo de Waart and performed by the Radio Filharmonisch Orkest and the Groot Omroepkoor. Soloists include sopranos Dagmar Schellenberger, Regina Nathan, Monique Krüs and Susanna Waleson, mezzo-soprano Jard van Nes, baritones Henk Smit and Wolfgang Schöne, and basses Huub Claessens and Julian Hartman; 2pm; Dec 7

■ BERLIN

DANCE
Deutsche Oper Berlin
Tel: 49-30-3438401
● Ballett der Deutsche Oper Berlin: perform Jiri Kylian's Dream Time to music by Takemitsu, William Forsythe's In the Middle Somewhat Elevated to music by Thom Willems, and Dietmar Seyffert's Heimkehr to music by Mahler; 6pm; Dec 8

EXHIBITION
Kupferstichkabinett
Tel: 49-30-26629598
● Giovanni Battista Tiepolo und sein Atelier: this exhibition celebrating the 300th anniversary of Tiepolo's birth features some 60 drawings and etchings by the Venetian master. Also on display, 40 works from Tiepolo's workshop; to Mar 2

■ BRUSSELS

CONCERT
Palais des Beaux-Arts
Tel: 32-2-5078466
● Orchestre National de Belgique: with conductor Yuri Simonov and pianist Jean-Efflam Bavouzet perform works by J.S. Bach, Beethoven and Schubert; 8pm; Dec 10

EXHIBITION
Musée dArt Moderne
Tel: 32-2-5083211
● Léon Spilliaert (1881-1946): exhibition featuring 41 works by the Belgian artist Léon Spilliaert from the museum's collection; to Dec 15

■ DRESDEN

OPERA
Sächsische Staatsoper Dresden
Tel: 49-351-49110
● Jenufa: by Janácek. Conducted by Wolfgang Rennert, performed by the Sächsische Staatsoper Dresden. Soloists include Anny Schlemm, Roland Wagenführer and Albert Bonnema; 7pm; Dec 8

■ LISBON

CONCERT
Grande Auditório da Fundação Gulbenkian
Tel: 351-1-7935131
● Thomas Hampson and Craig Rutenberg: the baritone and the pianist perform works by Mahler and Barber; 7pm; Dec 9

■ LONDON

OPERA
London Coliseum
Tel: 44-171-8360111
● The Mikado: by Sullivan. Conducted by John Pryce-Jones, performed by the English National Opera. Soloists include Richard Stuart, Ann Howard, Bonaventura Bottone and Richard Angas; 7.30pm; Dec 9
Royal Opera House – Covent Garden Tel: 44-171-2129234
● Tosca: by Puccini. Conducted by Plácido Domingo, performed by the Royal Opera. Soloists include Galina Gorchakova, Keith Olsen, Robin Leggate, James Morris and Gordon Sandison; 7.30pm; Dec 9

■ LYON

OPERA
Opéra de Lyon
Tel: 33-72 00 45 00
● Le Nozze di Figaro: by Mozart. Conducted by Paolo Olmi, performed by the Orchestre et Choeur de l'Opéra de Lyon. Soloists include Michel Denonfoux, Norah Amsellem and Elzbieta Szmytka; 8pm; Dec 10, 11

■ MADRID

EXHIBITION
Museo Nacional Centro de Arte Reina Sofia Tel: 34-1-4675062
● Oskar Schlemmer: exhibition featuring some 200 works by the German sculptor and painter Oskar Schlemmer (1888-1943), who was also a teacher at the Weimar Bauhaus and creator of the "Triadic Ballet";

■ NEW YORK

EXHIBITION
The Pierpont Morgan Library
Tel: 1-212-685-0008
● Seventeenth-Century Dutch Drawings in The Pierpont Morgan Library: this complementary exhibition to "A Fine Line: Rembrandt as Etcher" includes approximately 70 works by masters of the Golden Age of Dutch Art; to Jan 5

OPERA
Metropolitan Opera House
Tel: 1-212-362-6000
● Rigoletto: by Verdi. Conducted by Carlo Rizzi, performed by the Metropolitan Opera. Soloists include Swenson, White, Vargas, Nucci and Miles; 8pm; Dec 9

■ PARIS

DANCE
Théâtre Claude Debussy
Tel: 33-1-43 96 77 67
● Vu d'ici: solo performance by choreographer/dancer Carolyn Carlson. Part of the festival Iles de Danses 96; Dec 7

EXHIBITION
Fondation Cartier pour l'Art Contemporain
Tel: 33-1 42 18 56 50
● Patrick Vilaire – Reflection on Death: exhibition of seven monumental iron sculptures by Patrick Vilaire (b. 1941), a contemporary artist from Haiti. Central theme of the works is "death"; to Dec 22

■ SHANGHAI

EXHIBITION
Shanghai Museum
Tel: 86-21-63724004
● From Zurbaran to Picasso. Masterpieces from the Collection of Carmen Thyssen-Bornemisza: exhibition featuring around 60 paintings from Baroness Carmen Thyssen-Bornemisza's collection. Included are works by Zurbaran, Canaletto, Gauguin, Pissarro, Sisley, Monet, Picasso, Heckel, Kandinsky and others; to Dec 14

■ TURIN

OPERA
Teatro Regio
Tel: 39-11-88151
● Le Convenienze ed Inconvenienze Teatrali: by Donizetti. Conducted by Fabrizio Maria Carminati, performed by the Orchestra e Coro del Teatro Regio. Soloists include Luciana Serra, Carlos Chausson and José Fardilha; 8.30pm; Dec 10

■ WASHINGTON

EXHIBITION
National Gallery of Art
Tel: 1-202-7374215
● Michelangelo and his Influence: Drawings from Windsor Castle: this exhibition examines examples of Michelangelo's draughtsmanship and demonstrates the impact of the artist on the imagination, technique, style and imagery of his contemporaries and successors. Eighteen sheets with twenty-three of Michelangelo's drawings and fifty works by his contemporaries and followers, in addition to a small number of engravings, were selected from the Royal Collection Trust to illustrate the effect of Michelangelo's work in drawing, painting and sculpture. Raphael, Sebastiano del Piombo, Perino del Vaga, Pordenone, and Annibale Carraci are among the twenty-six additional artists represented in the show; to Jan 5

■ ZURICH

CONCERT
Tonhalle
Tel: 41-1-2063434
● Collegium Novum Zürich: with conductor Jürg Henneberger perform works by Prokofiev, Vallulin, Gubaidulina and Ziganov; 7.30pm; Dec 8

Listing compiled and supplied by ArtBase The International Arts Database, Amsterdam, The Netherlands. Tel: 31 20 664 6441. E-mail: artbase@pi.net

WORLD SERVICE

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CNBC:

08.30
Squawk Box

10.00
European Money Wheel

18.00
Financial Times Business Tonight

Philip Stephens

Matter of opinion

Snapshots by pollsters make fascinating reading but are no guide to the eventual outcome of a general election

Opinion polls are junk food for journalists. They fill a front page with minimum effort. They do precious little to nourish the political debate. Yet we are addicted to them. Half the time we even believe them. Week by week from now until Britain's general election, the pollsters promise us ever larger fixes.

Consider for a moment the first question the polls ask. If the election were held tomorrow, how would you cast your vote? The snag is that everyone knows there is not going to be an election tomorrow.

Sometime next spring, yes. John Major may hold off until May 1. My hunch is he will opt for April 10. The parliamentary arithmetic could oblige him to take his chances even earlier. But not tomorrow. So the voters have time to make up their minds. Even if they try to be truthful when talking to the pollsters, they do not need to decide yet about where they will actually put their cross on the ballot paper.

So no one – least of all the polling companies – thinks these snapshots of opinion are an accurate guide to the eventual election result. For one thing, different polls say different things. Take the most recent batch, published since the beginning of November. They show a Labour lead over the Conservatives of anything between 13 and 28 points.

Polls taken by the same company can show large swings over short periods. ICM said in early November that Labour's margin had shrunk to 13 points, the lowest since Tony Blair became leader in 1994. This week, its post-Budget snapshot had Labour ahead by 19 points. We live in febrile times, but public opinion is not that fickle.

Of course, one can iron out such blips and average out the discrepancies between the companies. That at least gives a more consistent picture. A straight line through the different surveys shows Labour's support hovering around 50 per cent and the Conservatives at a little above 30 per cent.

The numbers though are still incredible. At the same point before the last election, the two parties were neck and neck. They stayed like that until polling day. But when it came to the real thing in April 1992, the Conservatives won with an eight point lead. The pollsters were not the only people with egg on their faces.

For an opposition to be 20 points ahead so close to the election is anyway unprecedented. If the lead translated into real votes, Mr Blair would be looking forward to a majority in the House of Commons of something over 200 seats. Mr Major and the lucky successor to the unfortunate Nicholas Scott as candidate for Kensington and Chelsea would have to keep each other company on the Tory benches at Westminster. Paddy Ashdown's Liberal Democrats would replace the Conservatives as Her Majesty's loyal opposition.

So it will not happen. A significant slice of the electorate is saying one thing today and will do something else tomorrow. We know from local and European elections. Labour's best share during the past few years was the 47 per cent it won in the 1995 council elections. More typically, it has scored 44 or 45 per cent.

> The smaller 'focus groups' of voters on which the parties nowadays test their ideas do not deserve the air of mystery in which they are shrouded

Put it another way. To be confident of a majority in the House of Commons, Mr Blair needs a swing against the Conservatives of about 4 per cent, taking Labour's share of the vote to a touch over 40 per cent. That in itself would be a record. The biggest swing to Labour since 1945 has been 3 per cent. Yet the opinion polls point to a swing of 10 or even 15 per cent.

There is another reason why we can be sure the surveys are wrong. The carefully-selected groups of voters grilled by the pollsters are also asked which party they supported last time. In most polls this exercise produces a rather startling outcome. Mr Major did not win in 1992 after all. We have all been dreaming. Neil Kinnock has not been running Europe's transport policy. He is prime minister.

So the polls are telling us nothing more than our intuition. Kenneth Clarke may have returned the warm glow of the economic feel-good factor to the cheeks of the electorate, but few are ready to give the government the credit. And those willing to do so are understandably reluctant to admit their allegiance to such a desperately unpopular and divided party. You do not need expensive surveys to tell you that. A chat with a few neighbours in the local supermarket or pub will turn up the same responses.

Nor do the smaller "focus groups" of voters on which the parties nowadays test their ideas deserve the air of mystery in which they are shrouded. Legend has it that listening to such groups secured President Bill Clinton's re-election in the US. Somehow, I doubt it.

On the British side of the Atlantic, anyway, they fulfil a more pedestrian role. Qualitative polling, as it is called, is simply a useful tool for the party propagandists to discover which of their messages are getting though. Has the New Labour label stuck? Can the voters be persuaded that Mr Blair is smarmy? There is hardly any magic in this.

To be fair, the opinion pollsters do not claim their results are predictive. That's the fault of the headline writers. The companies will readily admit that people are waiting until much closer to polling day before making up their minds.

After getting it wrong in 1992, some of the companies have made technical changes. ICM asks its questions by telephone in the hope of securing more representative samples. Along with NOP, it adjusts its raw figures to take account of a so-called "spiral of silence" among some voters. These are the erstwhile Tory supporters who are unwilling to acknowledge they will probably return to the fold. An educated guess at their numbers knocks a few points off Labour's lead.

There is also useful data still to be found in the undergrowth of the surveys. The responses on economic optimism, on party allegiance, and on the images of the leaders provide helpful clues to the public mood.

But if we are to take them seriously, the polls must start to show a sharp fall in Labour's lead. Then the question will be whether this represents an adjustment to the prospect of a comfortable (rather than a crushing) Labour victory or whether it marks a trend which could yet save Mr Major. For now, you do not need the pollsters to tell you the odds are firmly with Mr Blair. But it's much easier to disparage junk food than to give it up.

LETTERS TO THE EDITOR

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Dissent at Apec meeting cannot be ignored

From Prof Jagdish Bhagwati.

Sir, Fred Bergsten's critique (Letters, November 29) of your account of the meagre results achieved at the recent Apec meeting in the Philippines is unjustified ("Apec opts for slow and steady jog", November 25).

True, the information technology agreement was endorsed by the assembled heads of state. But, as your correspondents noted, while American reporters were mostly repeating the official US gloss in the newspapers here, there were important dissents on what the agreed statement implied. Singapore's prime minister, Goh Chok Tong, described the wording as so ambiguous that "it can be interpreted by members as anything they want it to be". Malaysia's Dr Mahathir remarked that it bound members to no schedule at all.

Besides, the agreement itself owes little to Apec. Its contours were set well before the Apec meeting and it would have been taken to its true target, the World Trade Organisation ministerial meeting in Singapore starting on December 9, regardless of whether there was an Apec meeting now or, for that matter, Apec itself.

Nor is Mr Bergsten persuasive when he claims that the Seattle summit of Apec played a "decisive role in the completion of the Uruguay Round in 1993". He means that Apec served as a threat to walk away from multilateralism and this forced Europe to settle. Instead, the Uruguay Round was completed essentially because the US wisely decided to close the deal, taking the deals on the table instead of seeking more concessions. Further delays may have produced better bargains, but they would have killed the credibility of the multilateral trading system, strained by more than seven years of inconclusive negotiations.

While Mr Bergsten seeks to measure the Apec meeting's success by exaggerating what it did, its true success lies instead in what it did *not* do. As in the earlier Osaka summit, the Apec meeting opted for most favoured nation (MFN) trade liberalisation, resisting the temptation to turn Apec into a free trade agreement (which would instead liberalise trade preferentially only for Apec members), an option that Mr Bergsten and the Clinton administration have often espoused.

Apec has thus continued to remind us that true "open regionalism" is in fact MFN trade liberalisation. In the end, it could well be Apec's chief success.

Jagdish Bhagwati,
Arthur Lehman professor of economics,
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New York NY 10027, US

Good reason for Polish privatisations

From Mr G. Kolodko.

Sir, I read with great interest a small item published in Observer ("Insure yourself," November 28) on the issue of privatisation of PZU, the largest insurance company in Poland.

It came as a great surprise that such a reputable newspaper, promoting market reforms and disengagement of governments from business, published and endorsed opinions of people opposed to Polish government privatisation plans.

It is not only to remove the bureaucrats from running the companies but also to avoid such charges – of companies being in the sphere of influence of political parties – that we are planning the speedy privatisation of companies in the financial sector. I hope that you will agree with me that privately owned companies will not want to entangle themselves in politics. It is my firm belief – and it is shared by most of my fellow ministers – that only by privatising as much of the Polish economy as we can, will we remove any ideas that any politician might have of political "use" of companies.

All of this does not make Poland sound like Italy – we know what happened there in spite of the climate, the opera, wine and food. And the food in Poland is really good.

G. Kolodko,
deputy prime minister,
Republic of Poland,
Warsaw, Poland

Swiss labour law still in need of revision

From Mr Francois Nordmann.

Sir, On December 3 you published an article on the rejection of the new employment law in Switzerland ("Business hits at Swiss poll result"). The explanation which you give of the result of the referendum is one-sided.

It is true that a relaxation of the regulations on working hours would have enabled the Swiss economy to become more competitive. However, it is just as important to give adequate protection to the health of employees, particularly those who work at night. In this respect, the federal council would have preferred to go further than parliament. It had declared its support for legal provisions on compensation for working at night and on Sundays, without which it felt that the law was lacking in balance. This argument was not accepted by parliament, hence the overwhelming rejection by the people and the cantons.

This outcome does not alter the fact that an urgent revision of the employment law is necessary for the Swiss economy. This debate is in some ways reminiscent of the topic of the 48-hour limit on the working week in the UK.

Francois Nordmann,
ambassador of Switzerland,
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Perceptive and thought provoking

From Mr Paul Davis.

Sir, I would like to take this opportunity in wishing Michael Prowse well as his assignment in Washington comes to an end. His final article, "A deep debt of gratitude" (November 25) demonstrated, to all students of US current affairs, his thought-provoking and perceptive style.

His uncanny ability to second guess the actions of the Federal Reserve and erudite knowledge of US macroeconomic indices have, over the years, provided a detailed picture of the US economy. An unswerving advocate of supply side economics and the teachings of Frederick Hayek, he remained principled to the last. Wherever his career takes him next I for one will watch with interest. The FT leaves itself with a hard act to follow.

Paul Davis,
26 Suffolk Road,
Sidcup,
Kent, UK

Europa · Georges de Menil

EU's chance to shine

Europe should stop being feeble and support Ukraine's reform programme

This month will test the European Union's capacity to show leadership in foreign policy. The issue is the EU's response to radical reform in Ukraine, which is the key – as much as Russia – to the geopolitical stability of Europe. On December 17, Europeans, Americans and Japanese gather in Washington to decide whether or not to provide support for Ukraine's new reform programme.

Last week Mr Leonid Kuchma, Ukraine's president, began submitting a legislative package to eliminate regulations, reduce taxes and cut expenditure.

This is Mr Kuchma's second initiative. The first was launched in October 1994, three months after his election. It eliminated price controls, notably for industrial gas; gave free access to the foreign exchange market for all importers and exporters; abolished trade quotas; and cut the budget deficit from 10 per cent in 1994 to 3 per cent this year.

The result, two years later, is the end of high inflation and the early signs of export growth. Prices are presently growing at an annual rate of about 20 per cent. For a country in which they rose 10,000 per cent in 1993, this is a significant achievement.

Nevertheless, the first programme left a myriad of regulatory and administrative obstacles to enterprise, excessively high taxes and a sprawling, inefficient government administration.

One example of the way in which regulations from Soviet days hamstring businesses is the *kartoteka* regulation, which prohibits Ukrainian enterprises from having more than one bank account, and allows the tax administration to freeze all transactions on that account if it deems that the company owes back taxes.

The regulation also prohibits its businesses from drawing cash from their account without prior administrative approval. The consequence is that no intelligent businessman uses his bank account to run his business.

According to World Bank estimates, for every dollar produced officially in Ukraine, another dollar is produced unofficially, in a shadow economy where the medium of exchange is dollar bills. Not surprisingly, in the economy as a whole production is still falling. Gross domestic product in the official economy is expected to fall 9 per cent in 1996; GDP in the unofficial economy may be growing, but not enough to compensate.

The purpose of the second wave of reforms, crafted by Mr Victor Pynzenyk, vice-prime minister, is to make a clean slate of the remaining Soviet regulatory and other impediments, bring the shadow economy into the open, and put Ukraine on a rapid growth path.

The legislative programme includes elimination of the *kartoteka*, acceleration of privatisation, ending government grain procurement, independence for the central bank, the creation of a modern, western-style treasury to monitor government spending, and the reduction and rationalisation of taxes.

This programme requires foreign assistance for two reasons. The principal one is that Ukraine has to pay back a substantial part of its foreign debt next year. Ukraine – in contrast to Russia – faces a shortage of energy resources. Though the country has paid its debts since November 1994, it must now service the restructured debt for past energy purchases. Next year the government has for this reason to pay $950m in foreign debt service, mostly to Russia and Turkmenistan.

Second, some of the reforms – notably the tax reductions – tend temporarily to increase the deficit. Government revenue is expected to be 37 per cent of GDP this year. Tax cuts are projected to reduce revenues to 34 per cent of GDP in 1997. Expenditures are, at the same time, to be cut by only 2 per cent of GDP. The result is a forecast increase in the deficit from 3 per cent of GDP to 4 per cent.

Domestic capital markets are still in such an undeveloped state that foreign budgetary assistance is crucial to ensure that even this limited deficit does not lead to inflationary financing.

The International Monetary Fund, which supports this second phase of reform, has estimated that Ukraine needs $750m in bilateral financial support for the programme to be viable. Ukraine has asked the EU for a third of that sum. The US and Japan have made initial, low commitments, and are watching what Europe will do.

Leonid Kuchma: started submitting a legislative package

The response of the EU has been short-sighted and slow. Though EU economics and finance ministers have met three times since Ukraine officially presented its request, they have barely addressed the issue. The member countries are bickering over whether prior conditions for disbursement of earlier credit have been met, over overall policy in the region, and over burden-sharing with the Americans. They are combing through technicalities as if the EU alone bore the full burden of verification of a programme that will, in fact, be monitored monthly by the IMF. They are hiding behind the unfortunate hesitation of the US to provide new balance of payments support itself, in order to postpone consideration of their own commitment.

Surely the path of leadership is to press for an internal consensus on support, and then press the Americans and the Japanese to match it.

Europe has shown striking insensitivity – in trade matters as well as in matters of financial support – to the fact that a strong Ukraine is the best defence against a return of empire in the region, concentrating its support on Moscow. The disturbing implications of President Alexander Lukashenko's autocratic intentions in Belarus should help to emphasise the point.

The inability to act reflects a lack of political will in the member states. In contrast, the European Commission has drafted a positive political statement on Ukraine for the Dublin summit.

The issue on December 17 will be who will take leadership in Europe. If the answer is the US, Europe will have lost an important opportunity – and radical reform, economic growth and political stability beyond the EU's eastern border will suffer.

The author is professor of economics at the Ecole des Hautes Etudes en Sciences Sociales in Paris, and senior editor of the journal Economic Policy

FINANCIAL TIMES

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Jobs warning for Mr Kohl

Yesterday's news of record unemployment in Germany was the latest indication that the nation's fitful economic recovery is still not producing more jobs. The 50,000 jump in the seasonally adjusted total of registered unemployed to 4.1m in November was well above recent trends and expectations: it points to a bleak mid-winter.

It also suggests that Mr Günter Rexrodt, economics minister, was ill-advised to repeat his perennial optimism on the strength of Wednesday's relatively buoyant third-quarter economic growth figures. Insofar as Germany is enjoying a recovery, it is a jobless one with little prospect of improvement.

Germany's unemployment problem is not cyclical: it is structural. Industry is responding in a time-honoured fashion to high costs at home, by shedding labour and investing abroad. Meanwhile the all-important Mittelstand companies are holding back from investment and job creation. In addition, in eastern Germany one in four of the labour force has no proper job. This shows there has been no effective substitution of employment following the collapse of state industries after unification.

This is a problem turning into a crisis, and it requires decisive government action. Unfortunately, the well-meaning programmes of Chancellor Helmut Kohl's coalition in Bonn have so far proved far less effective than hoped. Relaxation of job security in the very smallest of companies, which was supposed to produce up to 500,000 new jobs, has so far had no perceptible effect. Non-wage labour costs which make German workers among the most expensive in the world are set to increase further next year, with a rise in pension contributions.

The modest moves to curb Germany's notoriously generous sick pay provisions have fallen foul of union protests. Yesterday's unexpected regional settlement in the engineering industry of Lower Saxony may buy industrial peace. But the agreement to continue sick pay at 100 per cent of salary in return for cuts in end-of-year bonuses could prove expensive.

Health insurance funds have calculated that German workers take an average of 21 days sick leave each year, which is far above the level in comparable and competing industrialised countries. It is a sign of the perverse incentives and bizarre expectations which the welfare structure has created.

There is no dissent in government, opposition, business or in the trade unions on the analysis of Germany's problems. But the November unemployment figures are a grim reminder of the need for more decisive action by all sections of society.

Faked beans

No aspect of modern human existence is more prone to provoke panic than food. With mad cow disease still lurid in the public imagination, European consumers find themselves assailed by a new threat: mutant crops produced by genetic engineers, infiltrating their stomachs without so much as a by your leave.

A new breed of genetically modified maize threatens to unleash a transatlantic trade dispute. Green lobbyists and consumer groups rumble about a US soyabean engineered to resist disease. The debates generate more heat than nutrition.

What, one might ask, is the fuss about? Technologists have been improving crops by selective breeding for centuries, with overwhelmingly beneficial effects for mankind. Most of the transplantings of genetic material being undertaken by today's biotechnology companies are in essence no different.

There is, however, a problem which cannot be dismissed. In Europe, many consumers mistrust the new products. And BSE shows what can happen when public mistrust runs out of control.

The two new products raise different issues. Ciba's maize, though approved by the US Food and Drug Administration, causes concern among some European scientists about a gene it contains which could make bacteria resistant to antibiotics in animals and possibly humans. If this difference prompts the European Union to curb US maize imports, an ugly row will ensue, reminiscent of their long-running argument about the use of growth-promoting hormones in beef.

Monsanto's soyabeans, by contrast, are agreed by authorities on both sides of the Atlantic to be entirely safe. But protestors demand that consumers be told what they are buying by means of labels – a task the manufacturer says is impossible since there is no way food processors can segregate different types of beans.

Two immediate lessons occur. First, there is an urgent need for greater co-ordination among regulators of food and drugs. This applies especially to Europe, where the system is of a complexity which only the inventors of the Common Agricultural Policy could have devised and as a result commands almost no public confidence. As Mr Franz Fischler, agriculture commissioner, said this week, Europe has much to learn here from the FDA.

Second, in the absence of trusted regulators, consumers crave information. This does not necessarily mean labels – although informative labelling can help. It means that manufacturers, retailers and governments have a responsibility to educate the public about new techniques such as genetic engineering. Unless they do, demagoguery will proliferate.

Cyberpiracy

Copying may be the sincerest form of flattery, but the owners of intellectual property would rather have royalties.

Unlike photocopying and tape recording, digitally stored information can be reproduced perfectly. It can be picked up over the Internet anywhere in the world for the price of a local telephone call.

More than 100 member governments of the World Intellectual Property Organisation are discussing in Geneva three new treaties to extend the rules for copyright protection into the digital age. Although both the European Commission and the US Congress have discussed the issues, global law is needed for a global medium.

Because material on the Internet is difficult to protect, much of its potential for disseminating entertainment and information is at present unused. But the absence of a simple and secure way of charging for downloading software, music or books is an equally important constraint. The enormous advantages of the Internet for distributing many forms of copyright material will not be realised unless these obstacles are overcome.

Bringing the century-old Berne convention on copyright up to date would be an important step. However, after agreement is reached the net will remain vulnerable to pirates operating from countries which have not signed.

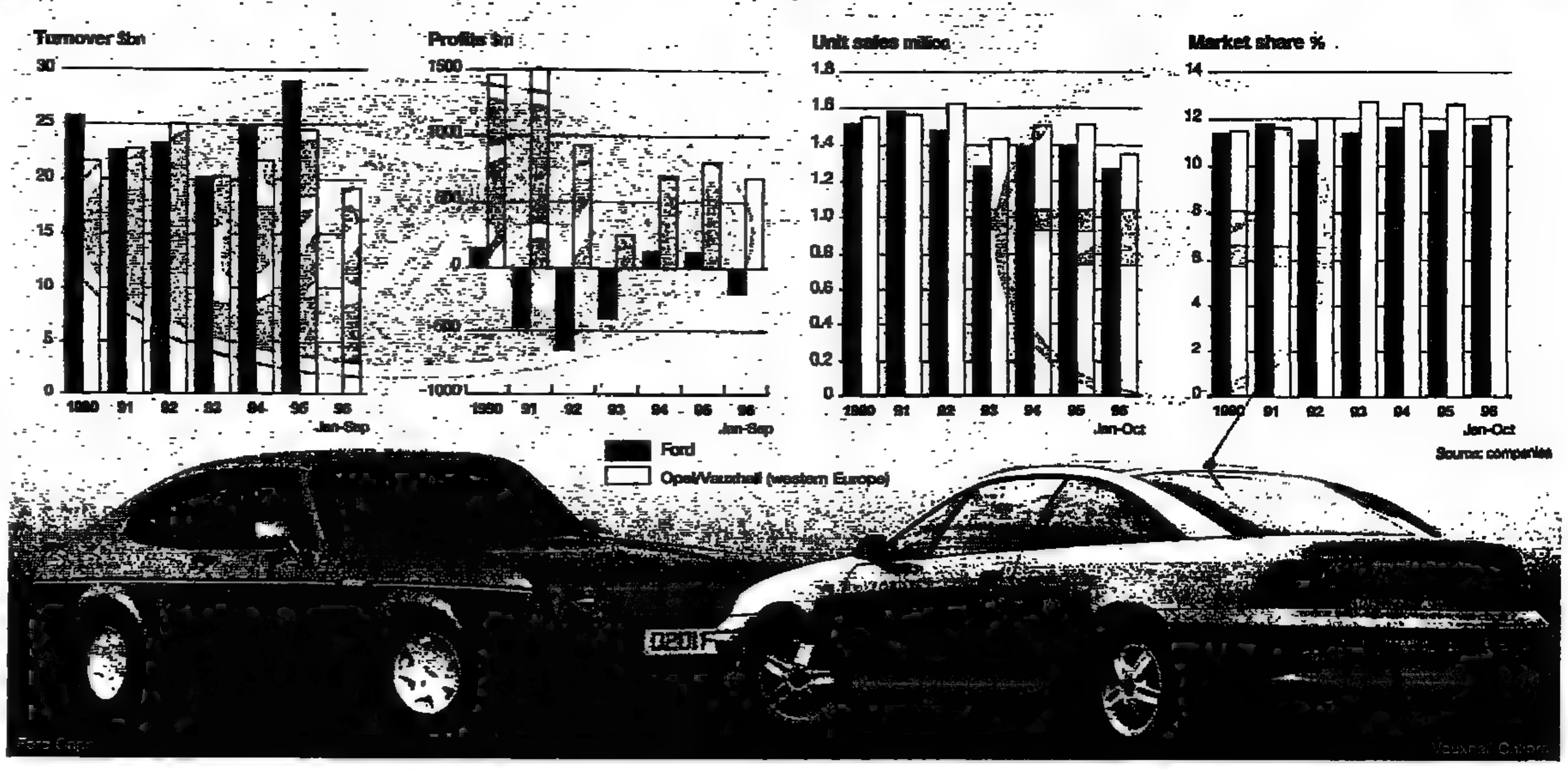
Even with conventional taping, the music and film industries estimate that copies outnumber pre-recorded originals by three to one in industrialised countries. Faster Internet connections will multiply this problem. The time taken to transfer a music CD is being cut from about two days to 10 minutes. This could reduce rewards for innovation or put up the price for legitimate customers.

The main problem will therefore be to enforce the new rules. The Internet was designed as an open information highway for US scientists, quite different from a worldwide commercial forum. But the commercial sector has a great incentive to ensure that technology is available to protect copyright.

New techniques for encrypting information will enable the information to be sent only to the intended recipients. This would also allow a cyberpayments system in which people could pay with a mouse click rather than by confirming credit card numbers over the telephone. Electronic tagging can already be used to distinguish legal from illegal copies.

Legal protection of copyright is needed if the Internet is to achieve its full potential. The next step will be to perfect the technology which can make the laws effective.

Carmakers in Europe: General Motors pulls ahead of Ford



A need for positive steering

Ford faces several difficulties in its effort to catch up with General Motors in Europe, says **Haig Simonian**

When Ford killed off the Capri in 1987, aficionados of stylish but affordable coupes shed a tear at the loss of a popular car. But the demise also marked a turning point in Ford's fortunes: after years of supremacy in Europe over General Motors – its otherwise much bigger US rival – Ford floundered.

By 1990, when Opel and Vauxhall launched the Calibra, the Capri's spiritual successor, GM's European subsidiaries had caught up with Ford in the most competitive car market. GM is now one of Europe's most profitable and productive carmakers and Ford is flagging.

"In the 1960s Ford of Europe kept Ford afloat in the US when under attack from the Japanese. Recently, the positions have been reversed as Ford took its eyes off the ball in Europe," says Mr John Lindquist, a motor specialist at the Boston Consulting Group.

While Ford has lost money in Europe in four of the past seven years, GM has racked up net profits of $6.4bn (£3.9bn) in the same period. In September Ford reported record European third quarter losses of $472m, compared with $320m last year. Ford warned of a likely $300m to $400m charge in the final quarter to cover early retirements, partly in Europe. GM made $75m in the third quarter.

So serious has the financial haemorrhage become that Mr Alex Trotman, Ford's chairman, reassigned Mr Jac Nasser – a trusted lieutenant who is tipped as a future chairman and has been running Ford's US operations – back to Ford of Europe to sort out the mess.

Mr Nasser could start by looking at GM. The companies are similar in Europe in sales, models and coverage. But they differ in organisation, products and plant efficiency. In each case, GM has lessons for Mr Nasser.

In a decisive move in January 1986 GM concentrated European product development on Opel, leaving Vauxhall as a production offshoot. To minimise rivalries, GM simultaneously created a small European headquarters in Zurich. Although Opel dominates its European operations, it is Zurich which calls the shots.

"We went from being a German manufacturer to being a European one," says Mr Louis Hughes, president of GM's international operations.

Ford has only recently started to integrate rigorously in Europe. Under Ford 2000 – the reorganisation instituted by Mr Trotman in 1994 – the company has tried to cut costs and improve efficiency by shifting responsibility for new vehicles from regional subsidiaries to a handful of "Vehicle Centres", each responsible for a particular type of product. In a tweak in September, Mr Trotman merged two pairs of US-based vehicle centres to streamline Ford 2000 further.

Ford 2000 has been praised as visionary, but criticised for poor implementation. The upheaval, which is still under way, may have exacerbated Ford's problems in the short term. But the main flaw of Ford 2000 is its failure to address the duplication in Britain and Germany.

VC1, the only vehicle centre in the region, is responsible for small and medium-sized front-wheel-drive cars. But it is split between Britain and Germany. That leads to inefficiency and cost, says Mr Steve Young, a motor industry specialist at A.T. Kearney, the management consultancy.

Ford denies its European operations are inherently flawed. Mr Richard Parry-Jones, head of VC1, says its split location is largely irrelevant in an age of instant communications and teleconferencing. "It's myth inside and outside the company, but it's not a problem," he says.

But differences between Ford's powerful European subsidiaries over new vehicles partly explain why some recent models have not lived up to expectations. "In a period when all carmakers have been offering fundamentally undifferentiated product in Europe, Ford has suffered by having *unexciting* undifferentiated product," says Mr Young.

By axing the Capri, Ford began a decade of concentrating on mainstream models and ignoring low-volume, image-building cars which pull customers into the showroom. By contrast, GM's Calibra marked a shift towards specialist vehicles alongside the utilitarian family saloons for which it was known.

The move into niche vehicles like the Calibra followed the revamp of GM's broader range in the mid-1980s. Much of its success is attributable to two mainstream vehicles: the Opel Ascona/Vauxhall Cavalier and the Opel Kadett/Vauxhall Astra. Both offered good design, up-to-date engineering and value for money when leadership had made Ford complacent.

The head of a rival says: "The name of the game is product, product and product. Ford was making vehicles which didn't appeal to the market's requirements in Europe." Thanks to its new cars, Opel/Vauxhall has been the best-selling brand in Europe for the past five years.

Differing sales performances by Ford and GM models have affected how efficiently they have used their factories. Capacity utilisation, rather than volume, is crucial to profitability in Europe, says Mr Stephen Haggerty, motor industry analyst at Schroders in London.

GM has been consistently better at improving productivity and tailoring capacity to demand. Mr Lindquist says that, based on value added per employee and the speed of turning over stocks – two decisive benchmarks – Vauxhall raced from well behind Ford to comfortably ahead between 1982 and 1994. In Germany, where GM started less far behind, Opel achieved rough parity during the same period.

In that period GM also "revolutionised" its purchasing by concentrating its European buying activities and moving from suppliers in Germany to lower-cost alternatives, says Mr Hughes. "It is almost impossible to calculate what we have saved in purchasing," says Mr Dick Donnelly, president of GM Europe. GM has also "outsourced" more to components suppliers than Ford, reckons Mr Lindquist.

GM has been helped by the popularity of its cars. That has reduced the need for incentives to shift stock. With chronic overcapacity and rising competition in Europe, incentives can be exceedingly expensive, as Ford noted in its third-quarter report.

Healthy demand for GM's cars has also created the cash flow to invest in the latest "lean manufacturing" technology. GM's new factory at Eisenach in the former East Germany is Europe's most efficient plant, according to the Economist Intelligence Unit.

Ford has been trying to catch up. At Valencia in Spain it has just opened a "supplier park" to cut handling costs and improve delivery times for component sub-assemblies from suppliers located alongside its car plant.

In terms of models, too, Ford has some trumps. Its Transit van is one of Europe's best sellers, while GM is much weaker in commercial vehicles. Ford is also ahead in multi-purpose "people-carriers", where GM has only just launched a competitor – two years behind Ford's Galaxy.

The Galaxy is one of a number of new or heavily revised vehicles that suggest Ford is trying to improve design, quality and value. That has culminated in the Ka, a diminutive hatchback that was runner up for this year's Car of the Year Award by leading European motoring publications. In manufacturing terms, the Ka represents significant progress. It requires only 1,200 parts, compared with 3,000 for the previous-generation Fiesta on which it is based. And it can be built 25 per cent faster.

"The Ka points the way our company is heading in the 21st century," says Mr Trotman. Mr John Devine, Ford's chief financial officer, says this is the prototype for Ford 2000's aim of accelerating development times and slashing costs by offering a greater variety of models using fewer vehicle platforms (basic engineering structures). "I fully expect Ford to bounce back," says Mr Lindquist. In 1997 the Ka will be followed by the Puma, a small image-building coupé, marking the next step in a strategy to offer more appealing vehicles. But sceptics fear the Ka may be a one-off. Its fast development time of 24 months, compared with Ford's 36-month average, may owe much to being based on an existing model.

Yet the real challenge for Ford is not to catch up in styling or value for money, but to keep pace with broader changes in Europe. While most forecasters expect sales in western Europe to stagnate in the next decade, they predict soaring demand in the fast-expanding economies of the former communist countries.

GM has already responded. In Hungary it has invested more than DM700m (£273m) in a big engine and car plant. In Poland, where it has a low-volume assembly plant, it last month broke the ground for a DM470m factory near Katowice, modelled on Eisenach. Ford's investments have been restricted to a "screwdriver" plant in Poland and component activities in the region.

Mr Parry-Jones says Ford has eschewed eastern Europe because it is unconvinced by the bullish forecasts. The real reason is that its excess capacity and heavy losses in the west militate against new factories in the east. The danger is that Ford may be sending Mr Nasser to put out one fire just when he should be tending to another.

· OBSERVER ·

Better read than red

■ You might have imagined that Russia's embrace of red-clawed capitalism would have been hailed by America's right as an ideological victory on a historic scale. Think again.

From something calling itself the Centre For Security Policy – yet another Washington DC think tank – comes a foaming fax, warning that Russia's recent $1bn eurobond issue is a "momentous and potentially ominous" development.

Its argument runs like this: now that the Kremlin can tap western pension funds for cash – rather than rely solely on the International Monetary Fund – Russia will be able to achieve that much-dreaded condition, the "financial breakout". Russia's eurobond programme will create a formidable pro-Moscow lobby in Washington, which will force the US government to bail out Russia in the event of a liquidity crisis.

The fax offers an alternative scenario. Maybe, it posits, all this lovely American pension fund money will actually go on the following: developing a new Topol M mobile intercontinental ballistic missile programme; manipulating secular Moslem states in the oil-rich Caspian sea area; sponsoring a robust international espionage campaign; and building nuclear reactors in Iran and Cuba. After all, it concludes, Lenin himself said western capitalists will sell their enemies the rope with which they hang themselves.

All this is a bit difficult to swallow. The centre really ought to have noticed that the Soviet Union collapsed in 1991. But if it missed that, then surely it's a trifle careless of the lead banks in the eurobond issue – JP Morgan and SBC Warburg – not to have included any of these spending plans in the prospectus?

Labours of love

■ There's bad blood between the International Labour Organisation and the World Trade Organisation, bedfellows in the sleepy town of Geneva. On Monday William Rossier, Swiss chairman of the WTO's general council, unofficially invited Michel Hansenne, director-general of the International Labour Organisation, to speak on trade and labour standards at next week's WTO ministerial conference in Singapore.

Hansenne said he'd be more than happy to go along and speak on that ticklish relationship. But by Tuesday the invitation was abruptly withdrawn at the behest of certain developing countries which oppose linking the two subjects.

Relations between the two organisations, always edgy, seem set to turn chilly. "The ILO has bent over backwards to put out messages supporting trade liberalisation," says one ILO official, who admits to being "astonished" that the WTO does not care to repay the compliment.

Happy to wait

■ There are perhaps few better ways of observing the true natures of fellow human beings than by watching them stand in queues.

A fine example of this occurred yesterday when Walter Mondale, the outgoing US ambassador to Japan, and his wife Joan, staged a *sayonara* lunch for friends and contacts.

Most of the arriving guests lined up in the rain outside, awaiting their turn to shake hands with the Mondales. One or two other ambassadors, of countries that had better remain nameless, were driven to the front of the queue in chauffeured limousines, from whence they strode straight into the US ambassador's residence.

But standing alone near the back of the line was Wataru Kubo, Japan's finance minister for just over nine months, until the government changed last month.

A US embassy official quickly spotted Kubo, and rushed forward to invite him to go to the head of the queue with the pushier VIPs. Politely, Kubo declined. Perhaps, as a senior member of the Socialist party, the bespectacled, schoolmasterly Kubo feels himself to be a man of the people.

But he wasn't the only one. Among other top dogs who didn't mind standing in the rain was Sir David Wright, UK ambassador to Japan. His patience must have been sheer good manners...

Full of beans

■ In the northern hemisphere the winter is about to unleash its full horror. It's appropriate therefore that the UK-based recruitment company Hays Accountancy Personnel should have come out with a survey suggesting that two-thirds of accountants are more depressed in winter than in summer. Half the bean-counters questioned said they found it more difficult to get out of bed on cold winter mornings.

Conclusive proof at last that accountants are human after all. Oh dear – maybe it's evidence instead that only half of them are...

The Financial Times

50 years ago

Storm In A Teacup
Johannesburg, 5th Dec. - Sixty-five miners at the Number One shaft of Blyvooruitzicht stopped work this morning because of the management's refusal to dismiss a miner who, it was alleged, voted against the recent strike. The secretary of the Mineworkers' Union, after discussion with the men, stated this afternoon that he hoped the matter would be settled amicably, and the men had been told to resume work. The strike is not regarded as serious, but only as a storm in a teacup.

Fly Constellations!
[Advertisement] "Why the world's leading airlines fly Constellations. Lockheed Constellation is the swiftest transport in service today – over 300 m.p.h. And only the Constellation has all four safety features – Patented Aerobrakes, Tricycle Landing Gear, additional Flight Engineer and a reserve of over 4,000 surplus horsepower. No wonder that Air France, American Overseas Airlines, BOAC, KLM, Pan American Airlines and TWA have all chosen Constellation."

FINANCIAL TIMES
Friday December 6 1996

No plans yet to produce mid-range weapon

India finishes research on Agni nuclear missile

By Mark Nicholson in New Delhi

India has "successfully completed" research on a intermediate-range missile with a nuclear capability, though it has no plans to produce the weapon unless it believes it is under increased military threat, the defence ministry said yesterday.

The ministry said the 2,500km-range Agni missile, tested last year, was a research project and was not designed as a missile system.

Any decision to make and deploy the weapon, which Indian defence analysts say could carry a nuclear payload, would be taken "at the appropriate time consistent with the prevailing threat perception".

The announcement arose from a defence ministry report submitted to parliament last month. Its release follows last week's state visit to India by Mr Jiang Zemin, China's president, during which both countries pledged to develop "a long-term, enduring" relationship and announced a series of confidence-building measures for their 3,000km, still-disputed border.

Agni has the longest range of the five missiles India has been developing under its Integrated Guided Missile Programme, begun in 1983 with an investment of around $800m.

The missile would theoretically be capable of reaching all parts of the sub-continent from India and much of western China. "The Agni is fundamentally India's deterrent against China," said Mr Brahma Chellai, a defence analyst with the Centre for Policy Research in Delhi.

Indian defence analysts say the missile has never been tested to its full range or payload capacity.

India's development of both the Agni and the smaller mobile-launched Prithvi missile have been criticised by the US and Pakistan, its rival in south Asia.

Indian officials said last year it would bring into service the Prithvi, a weapon that can carry a 1-tonne payload up to 250km. India is believed to have produced more than 15 missiles, which analysts consider are more effective as second-strike conventional missiles than as a nuclear delivery system.

India's missile programme is consistent with its posture of nuclear ambiguity, in which the country claims the capability to make and deploy nuclear weapons but declares no present intention of doing so. India tested a nuclear "device" in the Rajasthan Desert in 1974.

Delhi has argued that its national security depends on such nuclear ambivalence, given the similar posture taken by Pakistan, with which it has fought three wars since independence, and China's existing status as a nuclear superpower.

British Gas ends row with BP over N Sea contracts

By Robert Corzine and Jane Martinson in London

British Gas yesterday announced a £250m ($400m) deal with British Petroleum that marks a first step towards ending its bitter row with North Sea gas producers.

At issue is the future of tens of billions of pounds of "take-or-pay" contracts under which British Gas must pay for gas whether or not it uses it.

The company also released details of the planned demerger which will lead to the creation of a listed company, Centrica, containing the domestic gas supply, trading, service and retail divisions.

The agreement with BP was the first sign of progress in resolving the most intractable problem that has arisen as part of Britain's ambitious plans to open its gas market to full competition by 1998.

The renegotiation of contracts with BP was announced by Mr Richard Giordano, British Gas's chairman and chief executive. Under the agreement, British Gas would pay BP £250m in cash and/or assets. In exchange, BP, one of its largest suppliers, has agreed to terminate some supply contracts and to lower prices on others from 18p a therm to 14p a therm – roughly equal to current commercial prices.

A similar deal has been struck between British Gas's North Sea production arm and its domestic trading division. The "aggregate compensation" amounted to £293m, the company said.

The contracts, signed when British Gas was a monopoly, require it to pay for large amounts of gas it no longer needs. This is because its share of the commercial market open to competition has plummeted to about a third. It claims that without renegotiation, the problem could worsen markedly in 1998, when its last remaining monopoly to supply 19m households is lifted.

Other deals could be done before February 17, the date set for the demerger of the company, according to Mr Giordano. He said the agreements announced yesterday covered "only 10 per cent of the take-or-pay problem".

The market generally welcomed the deal. After rising strongly in early trading, British Gas shares closed up 3½p at 217½p.

But some analysts were disappointed about the lack of more detailed information about the renegotiations. "They don't want analysts to work it out," complained one. Company executives said they would suppress as much information as possible about the deals to encourage other producers to enter negotiations.

Under the demerger plan, British Gas will be renamed BG plc. It will include the UK pipeline system, as well as the company's exploration and production arm and international gas operations. Among the list of new non-executive directors for the two groups was Dame Stella Rimington, former head of MI5, part of Britain's intelligence service.

See Lex; Mixed signals, Page 22

Newmont bids $2bn for gold rival

Continued from Page 1

with projects in Peru and Indonesia. It was also the first western company actively to operate a mining operation in the countries formerly part of the Soviet Union.

Analysts suggested that, with the gold price near its lowest point for three years and gold companies out of favour, Newmont had chosen a good time to pounce.

Santa Fe was spun off by its parent, the famous railway company, in 1989. It was floated on the New York Stock Exchange in 1994 with a $2bn market value. It has no dominant shareholder.

Newmont is offering to exchange 0.33 shares for each Santa Fe share. It says these terms are worth $15.68 a share, compared with a price of $11 before the bid was made.

Albright to be first female secretary of state

By Jurek Martin in Washington

President Bill Clinton yesterday announced a new national security team for his second term, with Mrs Madeleine Albright, currently ambassador to the UN, as the first female secretary of state.

Mr William Cohen, the outgoing Republican senator from Maine, will be secretary of defence. Mr Anthony Lake moves from White House national security adviser to the CIA and is succeeded by his current deputy, Mr Sandy Berger.

All except Mr Berger must be confirmed by the Republican-controlled Senate. Few problems are expected for Mrs Albright, whose hawkish approach to UN reforms and Cuba is popular with conservatives, or for Mr Cohen, who served 24 years in Congress.

The choice of Mrs Albright, 59 and born in the former Czechoslovakia, follows intense lobbying by women's groups.

However, she has always been on the short-list of likely successors to Mr Warren Christopher, together with former senator George Mitchell, now chief US negotiator in Ulster, and Mr Richard Holbrooke, who forged the Bosnian peace accords last year.

Mr Clinton said Mrs Albright's personal history meant "she knows at first hand what it means for America to be the most indispensable nation". He also praised her ability to communicate foreign policy directly to the US public.

The president emphasised his desire that his national security advisers continue to operate as "a team".

He thought Mrs Albright and Mr Cohen could further growth of co-operation between the administration and Congress on foreign policy. The secretary of defence-designate, he said, was "the right man to secure the bipartisan support that the American armed forces must have – and that they deserve".

Mrs Albright said Mr Strobe Talbott would stay on as deputy secretary of state and head her transition team. She turned to Mr Christopher and said: "I only hope my heels will fit into your shoes."

Mr Cohen's nomination fulfils Mr Clinton's post-election promise to appoint a Republican to his Cabinet.

A seamless transition is expected at the national security council between Mr Lake and Mr Berger, previously a Washington trade lawyer. But Mr Lake could have a rough early baptism at the CIA, rocked twice in little over a year by revelations about Russian "moles" in its midst.

THE LEX COLUMN

Hiving Hughes

While Europe's defence industry fiddles, its US counterpart is reshaping itself at lightning speed. Only the day after France had to suspend Thomson's botched privatisation, it emerged that General Motors has told Hughes Electronics to put its $8bn-$10bn defence and aerospace division up for sale.

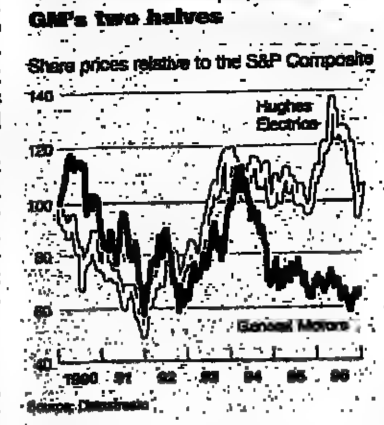
To European eyes, the notion that Hughes could auction its traditional core business – built by the legendary Mr Howard Hughes – may seem shocking. But, in a rapidly consolidating industry, it has become just a mid-sized competitor. Such rationalisation poses a clear threat to Europe's smaller, splintered industry.

The auction is also evidence that GM is returning to its automotive roots. This year it has already spun off EDS, the information technology company it acquired in the 1980s when it also bought Hughes. At the time, these purchases seemed a sensible way to cushion GM's highly cyclical earnings stream. In fact, they merely cushioned the automotive group's management from pressure to react to intensifying Japanese competition.

Though GM is now focused on its automotive problems, there is a long way to go. The logical next step would be to slim down further by demerging the rest of Hughes, essentially a successful satellite business. It could also make sense to spin off Delphi, GM's automotive component business: GM would be able to shop around for cheap supplies, while an independent Delphi should sell more components to GM's rivals.

FTSE Eurotrack 200: 1924.8 (-3.8)

GM's two halves



Source: Datastream

German equities

The German stock market is having a storming 1996: yesterday's all-time closing high caps an increase of nearly 30 per cent this year. And there are plenty of reasons for continued optimism. A falling D-Mark – it has lost nearly 6 per cent against the dollar since July – is helping exporters; and continued economic weakness, as reflected in November's record unemployment figures, makes this one of the few European countries where investors expect another interest rate cut.

These short-term prospects are underpinned by the broader themes of deregulation and restructuring. Both the German government, which recently agreed to legalise share buy-backs, and German companies appear to be more serious than their counterparts in Italy or France when it comes to promoting openness and shareholder value. As this week's strong results from Degussa and Porsche show, initiatives to set financial targets, cut costs and focus on fewer activities have spread far beyond the likes of Hoechst and Daimler-Benz.

Corporate earnings growth is expected to average 15 per cent in each of the next two years. Yet on 1998 figures, the stock market trades on an average multiple of five times enterprise value to operating cash flow, against 6 times for France and 6½ times for the UK and Holland.

Compared with the overblown valuations elsewhere, a relatively low rating and the huge scope for raising returns through further restructuring leave the German market looking attractive.

Gold

Not everyone, it seems, is disappointed by this week's slump in the gold price to a three-year low. Newmont Mining's bid for Santa Fe Pacific Gold clearly has its roots in the weak gold price. This has driven Santa Fe's share price down from a high of $17⅛ earlier this year to around $11 just before the offer was announced.

Still, if Newmont were simply gambling on a recovery in bullion prices to justify its bid of nearly $16 a share, it would probably be making a mistake. There is little reason to believe that gold, which has fallen more than 10 per cent since its January peak, has found a floor. Recently, the slide has accelerated, driven by record net short positions in gold futures markets. This in turn has galvanised a spate of panicky forward selling by producers, especially from Australia, trying to lock in prices before it is too late. The final twist has been the spate of rumours of central bank sales linked to the view that European countries trying to qualify for monetary union will sell some of their gold reserves.

Fortunately, Newmont's thinking is not merely based on bullish hopes for bullion. The merged company would have larger reserves – meaning investors would view it more as an ongoing business rather than a wasting asset. But this should not obscure the raft of structural concerns swirling around the market. These do not augur well for the gold price.

British Gas

For all yesterday's excitement at British Gas's first renegotiation of its infamous "take-or-pay" gas contracts, investors should not forget that renegotiation is only good news if it makes BG better off. This is not a straightforward judgment. And since the deal details are being kept secret, BG shareholders have little more than guesswork to go on.

Still, there are some clues. BG is believed to have paid around £250m to British Petroleum, its contract partner. If one assumes BP has accepted in return an average price cut of 2p a therm on 15bn therms of gas, its headline sacrifice is around £300m.

This will be spread over several years, so the real figure will be significantly lower. BP's claim that the effects are neutral – even before tax benefits – probably stacks up.

BG, in short, seems to have failed to persuade its partner to share any pain – which is not surprising, as there is no reason why gas producers should bail it out. Still, BG has at least gained something by taking action before next year's demerger. While the company is still integrated, the large tax loss from renegotiating the contracts can be offset against the copious profits from the rest of BG's business. And the cost can be laden onto the parent company's undergeared balance sheet. BG therefore needs to do as much as possible before the business which controls the contracts is split off; yesterday's only real good news was the evidence that it is finally getting a move on.

Additional Lex comment on Grand Metropolitan, Page 22

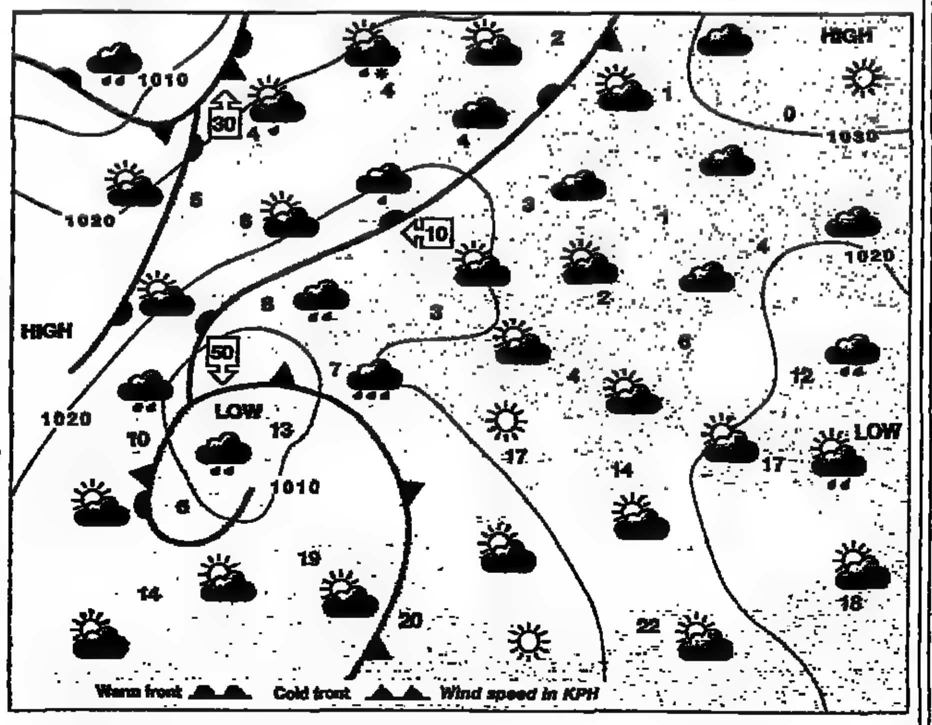
FT WEATHER GUIDE

Europe today

High pressure will bring calm and dry conditions to the central and southern British Isles. Parts of England may have patchy fog. The north-west will be rather cloudy with showers. Thick cloud and patchy drizzle will stretch from southern Scandinavia across the Benelux to France. Low pressure on the northern coast of Spain will bring torrential rain to the coast, snow in the mountains and showers on the plains. Portugal will stay dry with ample sunshine in the south. A high over Russia will promote calm conditions with bright sunshine in Italy and Greece. Central and eastern Europe will be dry with some sun.

Five-day forecast

A front associated with the low in Spain will gradually push eastwards, bringing torrential rain to Italy from Sunday. North-western, central and eastern Europe will be calm and dry. Most of these areas will also turn colder.



TODAY'S TEMPERATURES

Situation at 12 GMT. Temperatures maximum for day. Forecasts by Meteo Consult of the Netherlands

	Maximum	Beijing	sun 4	Caracas	cloudy 29	Faro	sun 13	Madrid	rain 5	Rangoon	shower 32
	Celsius	Belfast	fair 4	Cardiff	fair 5	Frankfurt	fair 6	Majorca	fair 14	Reykjavik	snow 1
Abu Dhabi	sun 27	Belgrade	fog 4	Casablanca	shower 15	Geneva	cloudy 6	Malta	fair 19	Rio	rain 28
Accra	thund 30	Berlin	fair 3	Chicago	cloudy 4	Gibraltar	fair 14	Manchester	fair 3	Rome	fair 17
Algiers	shower 17	Bermuda	shower 21	Cologne	cloudy 8	Glasgow	fair 3	Manila	cloudy 31	S. Frsco	rain 17
Amsterdam	cloudy 7	Bogota	fair 21	Dakar	fair 27	Hamburg	cloudy 6	Melbourne	shower 18	Seoul	sleet 2
Athens	fair 14	Bombay	fair 32	Dallas	sun 22	Helsinki	cloudy 2	Mexico City	fair 24	Singapore	shower 32
Atlanta	sun 16	Brussels	cloudy 8	Delhi	sun 26	Hong Kong	fair 19	Miami	fair 27	Stockholm	drzzl 4
B. Aires	shower 29	Budapest	fair 3	Dubai	sun 27	Honolulu	fair 28	Milan	cloudy 6	Strasbourg	fair 6
B.ham	fair 3	C.hagen	cloudy 4	Dublin	fair 4	Istanbul	shower 12	Montreal	snow 0	Sydney	fair 26
Bangkok	fair 33	Cairo	fair 20	Dubrovnik	fair 14	Jakarta	cloudy 30	Moscow	cloudy 1	Tangier	shower 14
Barcelona	shower 13	Cape Town	sun 24	Edinburgh	fair 4	Jersey	cloudy 9	Munich	fair 2	Tel Aviv	shower 20
						Karachi	sun 28	Nairobi	fair 25	Tokyo	cloudy 12
						Kuwait	sun 25	Naples	fair 13	Toronto	cloudy 3
						L. Angeles	cloudy 21	Nassau	fair 28	Vancouver	rain 7
						Las Palmas	shower 23	New York	cloudy 6	Venice	fair 9
						Lima	cloudy 25	Nice	rain 14	Vienna	fair 6
						Lisbon	fair 12	Nicosia	fair 17	Warsaw	cloudy 3
						London	fair 7	Oslo	fair 1	Washington	fair 12
						Lux.bourg	fair 6	Paris	cloudy 9	Wellington	cloudy 16
						Lyon	cloudy 9	Perth	sun 23	Winnipeg	snow -4
						Madeira	shower 18	Prague	fair 1	Zurich	fair 4

FINANCIAL TIMES
COMPANIES & MARKETS
Friday December 6 1996

IN BRIEF

TCI to reduce staff by 6.5%

Tele-Communications Inc, the USA's largest cable television operator, is to cut its workforce by 6.5 per cent and review all expenses not directly related to serving customers. About 2,500 employees from its corporate headquarters and field offices will go. Page 18

NordLB plays down talk of merger
Norddeutsche Landesbank, the German regional bank, sought to talk down reports of a merger with Bankgesellschaft Berlin (BGB), saying that there was no need for a full-scale merger, which would create Germany's biggest bank. Page 16

Record year lifts Opic hopes
The Overseas Private Investment Corporation, the US agency that promotes foreign investment and narrowly avoided the congressional axe this year, announced it had earned a record $209m profit in the year to October. Page 19

GrandMet boosts spirits sector
The "recovery" of world spirits markets gained credibility with the results from Grand Metropolitan, the UK drinks and food group. Its operating profits from drinks rose 4 per cent to £471m ($772m) with pre-tax profits up 5.8 per cent to £965m for the year to September. Page 22

Hanson's conglomerate era ends
Hanson delivered its final set of results as a conglomerate with a whimper, unveiling underlying profits down 9.6 per cent to £1.2bn. At the pre-tax level, the results for the year to October 1 were bolstered by £633m of exceptional gains on disposals. Page 22

Gold market rife with speculation
The gold market was awash with rumours that a European central bank had been selling gold overnight. Traders suggested 600,000 ounces (18.7 tonnes) had been sold, followed by heavy selling by investment funds. At the morning "fix" in London, gold's price was $368.30 an ounce, just above the three-year low reached on Tuesday. It stood at $370 by the close. Page 26

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Chief price changes yesterday

FRANKFURT (DM)			
Rises			
BMW Pf	755	+	14
Degussa	673.5	+	20.5
GEA Pf	480	+	9
Mannesmann	552.9	+	23.4
Porsche	1240	+	53
RWE	490	+	12
NEW YORK ($)			
Rises			
Footstar	24¾	+	2⅛
Input/Output	19⅝	+	3⅛
Falls			
Galoob Toys	27¼	−	2⅝
Lands End	27⅞	−	2⅛
Oakley	11⅛	−	4⅝
Ucar Intl	34⅞	−	3⅛
LONDON (Pence)			
Rises			
Forval	65	+	12½
Gradus	189½	+	34
Falls			
Crown Prods	22½	−	11
Fila Indstr	39½	−	10
Forward Tech	27½	−	11½
Heywd Williams	185	−	29
TORONTO (C$)			
Rises			
Inex Pharm	9.7	+	0.95
[illegible]	11.65	+	1.15
MDS A	23.75	+	1.05
Falls			
Great Pacific	50	−	3
Investors Grp	24.00	−	1.75
Newcourt Cred	45.75	−	2.00
PARIS (FFr)			
Rises			
Synthelabo	510	+	9

Falls			
CGIP	1307	−	25
Chargeurs Intl	245.5	−	6.5
Elf Aquitaine	443	−	14
Imm France	337	−	14
Peugeot	622	−	16
TOKYO (Yen)			
Rises			
Bridgestone	2200	+	120
Denso	2770	+	160
Fanuc	3800	+	210
Green Cross	571	+	31
[illegible]	3310	+	190
Falls			
Chiyoda Corp	860	−	35
HONG KONG (HK$)			
Rises			
Dransy Inv	0.89	+	0.12
[illegible]	2.52	+	1.86
Logic Intl	0.84	+	0.08
Sun Shing	0.79	+	0.12
Falls			
Sieh Cheong	0.36	−	0.05
Tysan Intl	3.3	−	0.3
BANGKOK (Baht)			
Rises			
Ocean Glass	14.75	+	1.25
Royal Ceramic	19.50	+	1.75
Shangri-La	[illegible]	+	2.50
Sino-Thai Eng	13.75	+	1.25
Falls			
Inoue Rubber	36.75	−	3.75
Karat Sanitary	33.0	−	3.5

New York and Toronto prices at 12:30.

GM puts Hughes Aircraft up for sale

Merger talks between aerospace subsidiary and Raytheon collapse

By Bernard Gray, Defence Correspondent

General Motors has put the defence and aerospace division of its subsidiary Hughes Electronics up for sale following the failure of merger talks between Hughes and its aerospace competitor, Raytheon. It wants to see an auction completed by early 1997.

The business for sale specialises in missiles, radar and military electronics. It is likely to be worth $8bn-$10bn.

Several large US defence contractors are potential bidders. Northrop Grumman and McDonnell Douglas, which are both looking for defence electronics businesses, would be leading contenders.

Raytheon is also likely to re-enter the bidding to try to prevent a close competitor being sold elsewhere.

A possible wild-card entry could come from industry leviathan Lockheed Martin, which has said that it wants to digest recent acquisitions and reduce debt, but has also said it would not pass up strategic opportunities.

General Motors' board decided to put Hughes Aircraft, the Hughes division which contains most defence assets and accounts for about 40 per cent of Hughes Electronics' turnover, up for sale a month ago.

The decision followed the collapse of year-long negotiations between Hughes and Raytheon over the business. These were ended partly because agreement could not be reached about the role of executives following any deal.

General Motors wants to sell because it has been trying to shed non-automotive businesses and because the price of defence businesses has risen in the past two years as the US industry has consolidated.

Raytheon would be a natural buyer for Hughes Aircraft, because the two both make air-to-air missiles for the Pentagon and air traffic control equipment. Hughes would also be a natural fit with E-Systems, which Raytheon bought last year.

However, it is likely to face strong competition from McDonnell Douglas and Northrop Grumman, which are being squeezed in their traditional markets of aircraft manufacture. Both are looking to replace this business with electronic warfare, command and control, and systems integration businesses. Lockheed Martin would also be interested in Hughes's radar and missiles operations and could decide that the opportunity was too important to miss.

Hughes Electronics yesterday declined to comment.

While executives say privately that Hughes will not sell the business unless the price is right, the level of interest makes a deal highly likely.

Hughes would also have to resolve a large tax liability on any sale, which could be avoided if a deal was struck for shares rather than cash.

News Corp link with Japan in music venture

By Gwen Robinson in Tokyo and Alice Rawsthorn in London

Mr Rupert Murdoch's News Corporation will today announce that it is joining forces with Mr Tetsuya Komuro, one of Japan's most successful record producers, to form a music and multimedia company.

The company, a joint venture, will release records, CD-Roms, and other entertainment software products throughout Asia, giving News Corp an *entrée* to one of the fastest growing areas of the music market.

The news of Mr Murdoch's move into music, one of the few areas of the entertainment industry where News Corp does not already have substantial interests, has fuelled rumours that he may bid for EMI, the UK music group.

EMI, which includes the Beatles and Spice Girls among its artists, is the only one of the world's "big five" music companies not owned by a multinational entertainment group.

Speculation about its future has intensified since this summer's demerger of Thorn EMI, its former parent.

News Corp has long-been touted as a potential bidder, alongside other North American entertainment groups including Seagram, Walt Disney and Viacom.

Mr Murdoch has made no secret of his interest in the music sector, but until now has concentrated resources on expanding News Corp's presence elsewhere, notably in pay-TV.

Last month his youngest son, James, 23, was appointed to the newly-created role of News Corp's vice-president of music and new media.

News Corp simultaneously announced the acquisition of Rawkus, the New York record label founded by Mr James Murdoch.

The joint venture with Mr Komuro, who made his name as a producer of the "techno" dance music that has become a craze among young Japanese in the 1990s, is News Corp's first music investment since then.

It already has shareholdings in Festival and Mushroom, two Australian record labels. However, News Corp has a strong presence in Asian music broadcasting through Channel [V], the Hong Kong-based video music channel.

Mr Komuro, 37, founded and now runs Orumok, a Tokyo-based techno record label, and has masterminded the career of Namie Amuro, the Japanese teen idol.

He has also collaborated on various CD-Rom projects and hosts a talent show for aspiring pop stars on Japanese television.

This autumn, Mr Komuro clashed with the Tokyo tax authorities when he was ordered to pay Y55m ($483,000) for failing to report Y110m of income from albums produced in 1994. He claimed the money was earnt by his company, but the tax bureau decided it was personal income.

Ruud Gullit, the Dutch football star who is player-manager of the English club Chelsea, is to have a range of leisure clothing named after him in the first attempt by a company to build a brand around a football player. Page 22 Brendan Corr

Government to cut stake in KLM

By Gordon Cramb in Amsterdam

The Dutch government is to cut its stake in KLM to 25 per cent from 38.2 per cent by selling a parcel of shares back to the airline, in a deal worth as much as Fl 1bn ($570m).

KLM said it would then cancel the shares, improving earnings per share by some 20 per cent after the complex deal is concluded by next June. The airline has been seeking ways to boost its financial performance in spite of rising personnel and fuel costs and its failure so far to secure a place in a global industry alliance.

The carrier is to pay for the share buyback from its own funds, although its debt to equity ratio will rise to 1.3 from 0.95 as a result. Concerns over this higher gearing dampened some of the positive reception among investors. KLM shares, up 7.5 per cent at one stage yesterday morning, closed the day Fl 2.10, or 4.6 per cent, higher at Fl 47.30.

In a formula based on the weighted average market price prevailing over four days from next Tuesday – less a 2.5 per cent discount – the government is to receive between Fl 41 and Fl 49.33 a share. The upper limit is equivalent to the airline's net equity value per share at the end of its latest quarter. The deal falls through if the volume weighted average over the four days emerges at below Fl 41 or above Fl 56.

The process contains a number of steps. First, the 17.29m ordinary shares involved are to be converted into a special class of stock. This will allow KLM to circumvent rules preventing the repurchase by a company of more than 10 per cent of its equity in any year. Along with the discounted price, this should mute calls for the offer to be extended to other shareholders.

KLM said it would seek no further buyback before next July, while the government added that it intended to maintain its remaining 25 per cent stake until at least March 1998.

The state is also accepting a cut in par value for the other classes of KLM share it will retain. Although it is not demanding its full entitlement from the capital reduction, it will still receive some Fl 176m in compensation from the manoeuvre. This takes its total proceeds to Fl 900m-Fl 1.045bn.

The government will also amend an agreement under which it is entitled to commandeer a majority voting interest through the purchase of further preference shares. It said that would in future be exercised only if required for reasons of aerospace politics.

Finally, the state is to surrender its majority on the carrier's supervisory board of non-executive directors.

Cofir set for shake-up after sale of De Benedetti stake

By Tom Burns in Madrid

Cerus, the French group owned by Mr Carlo De Benedetti, the Italian financier, yesterday sold its 48 per cent stake in Cofir, paving the way for the Madrid-based holding company to restructure itself as a hotels and wines group.

The Pta16.2bn ($124m) sale to more than 70, mainly UK-based, institutions was co-ordinated by Schroders, the UK merchant bank. Cofir, which was created by Cerus in the late 1980s, now has one of the widest shareholdings among companies quoted in Madrid as it was already 30 per cent owned by institutions.

Six Cofir directors – half the board – who were linked to Mr De Benedetti resigned yesterday and will be replaced next week. Mr Gabriele Burgio, Cofir's chief executive and the architect of a profitable entry into the Rioja wine sector, will remain at his post.

The sale reflected a price of Pta404 for Cofir's shares – slightly below their close yesterday. The price was well below the Pta600 per share that Mr De Benedetti had reportedly sought.

Cofir's shares had risen to a peak of Pta478 in June but had slumped to Pta317 by October, reflecting Mr de Benedetti's difficulties at Olivetti, the Italian information technology group.

The partial break-up will involve the sale of the Retail Investment lossmaking distribution group, which is based on supermarkets in north-west Spain. Cofir will also start withdrawing from its property interests which include a controlling stake in Sotogrande, a golf centre and leisure complex near Gibraltar.

Cofir will concentrate on its more profitable assets: NH hotels, the leading domestic city hotel chain; and Berberana, one of Spain's top wineries. The new shareholder base lends considerable financial muscle to Cofir and suggests that it will be able to consider increasing its capital.

"This was a research-driven sale that emphasised the value of NH and Berberana and mapped a new strategy for Cofir in which it would no longer act as a diversified conglomerate," said one analyst.

As a conglomerate, Cofir was trading at a deep discount, estimated at some 30 per cent, on its net asset value. Some analysts believe the concentration on hotels and wines will eliminate the discount and deliver good multiples to shareholders.

Reed Elsevier issues warning

By Raymond Snoddy and Peter John

Reed Elsevier shares fell 5 per cent yesterday after the Anglo-Dutch publishing and information group warned that the recent strength of sterling was hurting profits.

Some analysts slashed profit estimates by as much as £70m for this year following Reed's trading update.

Ms Lucy Whittome, analyst at James Capel, took 7 per cent off her full-year forecast – 4 per cent for currency and 3 per cent for other factors – reducing it £890m. At Salomon Brothers, Mr Richard Dale dropped his from £904m to £870m.

However, Kleinwort Benson said it might pare only £10m-£15m off its £940m pre-tax forecast. It pointed out that currency trends could change and Reed was already heavily into electronic publishing.

In a statement, Reed said it was maintaining good organic growth and was confident about the outlook for the year.

It said that the recent marked strengthening of sterling against its main trading currencies would reverse a 2 per cent headline profit gain in the first half, although the full-year impact would be broadly neutral.

It also observed that suitable acquisitions were proving hard to find and indicated it would accelerate its drive into electronic publishing. Some analysts thought this would increase capital expenditure in the short term.

The shares fell 64½p to £10.87½.

If exchange rates for dollars and guilders – in which Reed earns about half its pre-tax profits – remain at their present levels throughout 1997 "there will be an adverse currency impact of about 4 per cent on the 1997 Reed Elsevier combined pre-tax profit", the company said.

It noted that in 1996 electronic publishing will represent nearly one-fifth of revenue, compared with very little five years ago.

Spain paves way for second telecoms group

By Tom Burns in Madrid

The Spanish government yesterday gave the green light to a second domestic telecoms operator by authorising the transformation of Retevisión, the state-owned TV signals transmitter, into a basic telephony company.

In a second deregulatory move expected later this month, the government will invite bids for 80 per cent of Retevisión's equity.

The launch of Retevisión comes ahead of the full privatisation of Telefónica, Spain's existing domestic telecoms group.

The sale of the government's remaining 21 per cent stake in the national operator is scheduled for February next and the disposal is worth some Pta560bn ($4.3bn) at Telefónica's current market price.

The only consortium that has so far indicated an interest in acquiring Retevisión is one which brings Global One, the alliance formed by France Télécom, Deutsche Telekom and Sprint, the US operator, together with a group of Spanish banks and electric utilities, led by Banco Central Hispano and Endesa, the large government-owned generator.

The government wants to complete the partial privatisation of Retevisión in March next year and to have the company competing with Telefónica in April.

The timetable will give the second operator a degree of leeway in order to consolidate its business ahead of the full deregulation of the domestic sector late in 1998 which is when Spain plans to implement the EU's open market directives for the telecoms industry.

As well as providing an early entry into the domestic market, analysts believe the main attraction of Retevisión for foreign groups is that it is already a fully operating transmitter, with 1,280 employees and 1,800 signal stations providing nationwide audio and visual services.

It has widened its television support role to provide signals for a number of clients including Airtel, the second domestic cellular phone operator, and British Telecom's data transmission subsidiary in Spain.

The company's assets, which include 34 per cent of Hispasat, a Spanish satellite, have been valued at Pta64bn. It is forecast to make a net profit of Pta2.1bn this year on sales of Pta35bn.

Retevisión however faces the daunting task of breaking into a domestic industry that is dominated by Telefónica. In what will be its last full year as the monopoly provider of basic telephony services, Telefónica is estimated to post a net profit of Pta179bn this year, up from Pta138bn in 1995.

Peugeot shares slip as Michelin cuts holding

By David Owen in Paris and Haig Simonian in London

Shares in Peugeot-Citroën, the French car group, fell sharply yesterday after Michelin, the tyremaker, sold a 2.6 per cent stake in the company.

Michelin said it had sold about 40 per cent of its holding in Peugeot, or some 1.31m shares, to institutional investors for FFr614 a share – a discount of FFr24 to Wednesday night's closing price of FFr638. Peugeot shares fell FFr16, or 2.5 per cent, to close at FFr622 yesterday. Michelin shares dropped FFr1.40, or 0.5 per cent, to FFr277.

Michelin said the FFr804m ($152.35m) proceeds would enable it to "pursue the reinforcement of its financial position" by reducing its heavy debt. The sale did not mean Michelin thought Peugeot-Citroën shares were no longer a good investment. Michelin had net debts of FFr23.2bn on June 30 1996. This gave it a net debt to equity ratio of 121 per cent, or 197 per cent if FFr4.9bn of subordinated debt were considered as debt rather than equity.

The tyre company has longstanding links with Citroën, having taken control of the company in 1934. The merger between Peugeot and Citroën dates from 1976. After yesterday's sale Michelin will retain 3.5 per cent of Peugeot's capital and 5 per cent of its voting rights. Peugeot family interests retain just over a third of the voting rights.

Separately, Peugeot denied reports that it was in talks to sell its 22 per cent stake in a Chinese carmaker in Guangzhou to Opel, General Motors' subsidiary.

Mr Jacques Calvet, chairman, yesterday said the Chinese car market had been in difficulties, particularly after the government's latest credit squeeze which had sharply reduced demand.

The Guangzhou plant was one of the first joint ventures between a western carmaker and local interests. However, it has never lived up to expectations. Various commercial and cultural difficulties meant total output had only been about 100,000 units since starting business in 1986.

Peugeot-Citroën denied it was planning to sell its stake in the venture, which builds Peugeot 504 and 505 saloons, to concentrate production at a new Citroën plant in the central city of Wuhan. Analysts said that while a shift was possible in the longer term, it was not on the cards at present.

Opel declined to comment on the reports. However, the company is believed to be looking at further opportunities in China after last year's agreement by GM to form a joint venture to build up to 100,000 large family cars a year in Shanghai.

Analysts believed GM, which also has a joint venture for light commercial vehicles, was more interested in engine capacity than additional car output.

Some also expressed surprise that the company might be interested in Guangzhou in view of reported political differences between local administrators and the central government in Beijing.

Jacques Calvet: credit squeeze had hit Chinese market

France faces shake-up in banking sector

By Andrew Jack in Paris

French banks face the prospect of a substantial shake-up after the Caisse d'Epargne savings network yesterday unveiled proposed changes to its statutes, and the country's finance minister said that he had set up a committee to consider how to remove competitive distortions in the sector.

The Caisse d'Epargne, which is governed according to nineteenth-century charitable statutes and has no shareholders, said it planned to convert its 34 regional savings banks into co-operatives, while creating separate foundations to maintain its social objectives.

Separately, Mr Jean Arthuis, finance and economics minister, told the Financial Times that he had appointed Mr Dominique de La Martinière to produce recommendations on changes to the banking sector.

The Caisse d'Epargne has been subject to increasingly bitter criticism over the past few months from France's commercial banks, which argue that its lack of outside investors gives it no incentive to make a profit and encourages it to offer loans at extremely low margins.

Last year, it generated just FFr1.7bn ($322m) in profits on capital of FFr62.1bn.

The proposals, which were approved on Wednesday by its governing body, would create shares for each of its 34 regional banks available to customers, employees and possible outside investors, with up to 35 per cent remaining in the hands of non-profitmaking foundations.

The change would ease alliances and takeovers with other financial institutions, and permit cross-shareholdings for the first time.

Criticism of the Caisse d'Epargne's lack of capital contributed to its reluctance to bid for two state-owned French banks up for sale: Marseillaise de Crédit and CIC.

The Caisse d'Epargne said that it had ruled out its conversion into a conventional corporation, and stressed its desire to maintain its social objectives while playing an important role in the French banking sector.

Its recommendations must now be submitted to the government, and will be subject to a vote at an extraordinary general meeting.

They are likely to provoke considerable debate. French commercial bankers yesterday criticised the proposals and said the profits earned by the Caisse d'Epargne should be handed back to the state.

Meanwhile, Mr Arthuis said that Mr de La Martinière – who earlier this year chaired a working party on the tax system, which led to rapid legislative change – would be rapidly producing recommendations on what the government could do to eliminate distortions weakening French banks.

Mr Arthuis said that he was not an enthusiast for legislation, but there was "probably" a need to reform the 1937 labour decree which severely restricts banks' ability to increasing more flexible working hours.

Similar recommendations were made last month by an influential report from the French senate finance commission.

The National Assembly earlier this week announced the creation of its own committee to study the question.

EUROPEAN NEWS DIGEST

Cost pressures hit Kolbenschmidt

Kolbenschmidt, the German engine components business, yesterday blamed continuing cost pressure in its core car component market for a fall in pre-tax profit in the year to September, to DM60.7m ($38.8m) from DM63m the previous year. Sales fell to DM1.32bn from DM1.34bn. "We've achieved a decent result under enormous cost pressure in a difficult market," Mr Heinrich Binder, chairman, said.

Kolbenschmidt said it was planning to resume a dividend payment for the year, but did not provide details. The company last paid a dividend, DM4 a share, in the year to September 1991. Kolbenschmidt said it expected to strong growth in the coming years through "considerable" investments. *AFX-News Neckarsulm*

Repsol in talks with Solgas

Repsol, the Spanish energy company, was in talks to acquire 60 per cent of the Peruvian butane gas company Solgas for about Pta6.5bn ($49m), sources close to Repsol said. The talks were at a "very advanced" stage, the sources said. Solgas, which was privatised in 1992, has a 56 per cent share of the local butane gas market. Mr Alfonso Cortina, Repsol chairman, said last month the company planned to invest $230m in Peru over the next five years. *AFX-News, Madrid*

Pharmacia drug trial complete

Pharmacia & Upjohn, the Swedish-US pharmaceuticals group, said it had completed clinical trials of its highly-rated anti-incontinence drug, tolterodine, and would file applications for regulatory approval within two months. It said the trials, involving more than 2,000 patients in Europe, North America and Australia, indicated tolterodine "would fill a significant market need".

Mr Göran Ando, executive vice-president, said: "We have a drug which is clearly effective, as well as well-tolerated." Mr Ando said applications for registration of tolterodine tablets would be filed in the US, Sweden and the UK by early next year. Pharmacia & Upjohn said two new therapies – an eye disease treatment, Xalatan, and an anti-colon cancer agent, Camptosar – launched in the US after mid-year had met rapid market acceptance. Sales of Xalatan were $20.6m to end-November, while Camptosar revenues were $41.1m. The shares rose SKr5.5 to SKr268.5 amid strong gains for pharmaceutical shares on the Stockholm bourse yesterday. *Greg McIvor, Stockholm*

Hungary to launch bank sale

Hungary said yesterday it would sell off one of the last large commercial banks in state hands by the end of May. APV, the privatisation agency, said it would launch a two-round tender for Kereskedelmi es Hitel Bank (K&H Bank) in January.

The state, which owns 87.8 per cent, is aiming to sell at least 25 per cent of the shares and plans a capital increase of no less than $40m. A stake of up to 30 per cent of the present capital is also to be given to the state health and pensions funds. APV hopes to finalise the sale of an 89 per cent stake in Magyar Hitel Bank, another leading local bank, to ABN Amro for $89m this month. Analysts say Hitel has a stronger management team and a more focused strategy than K&H, which has a diverse equity and loan portfolio and still requires considerable restructuring. *Virginia Marsh, Budapest*

CFPI stake 'not hostile'

Rhône-Poulenc, the French chemicals conglomerate, said it had "no hostile intentions" towards CFPI, the agrochemicals company in which it has built up a 28.4 per cent stake since the start of November, becoming the single largest shareholder. "Rhône-Poulenc and CFPI have had a relationship of collaboration and competition for the past 10 years", particularly in herbicides and growth control products, CFPI said. *AFX-News, Paris*

Comments and press releases about international companies coverage can be sent by e-mail to international.companies@ft.com.

NordLB plays down talk of merger

By Frederick Stüdemann in Berlin

Norddeutsche Landesbank, the German regional bank, yesterday sought to talk down reports of a merger with Bankgesellschaft Berlin (BGB) and said that while the institutions could work well together in certain areas there was no need for a full-scale merger.

Mr Manfred Bodin, NordLB chairman, said: "NordLB will remain in its current form. There will be no fusion." Instead NordLB preferred to talk of an "alliance" of the two banks which in terms of balance sheet assets would together be Germany's second-largest bank.

Mr Bodin identified three areas – investment banking, overseas operations and the handling of corporate clients – in which a joint approach would make sense. NordLB and BGB together already run mortgage banking operations and a back-office data processing company.

NordLB also owns a 15 per cent direct equity stake in BGB and through a 25 per cent stake in Gothaer Beteiligungsgesellschaft, the investment arm of the Gothaer insurance group, an indirect holding of 2.5 per cent.

Mr Bodin's remarks reflect the political sensitivities about a merger of the two banks. Both are largely owned by the governments of four Länder, or regional states.

Mr Gerhard Schröder, minister-president of Lower Saxony, which holds a 40 per cent stake in NordLB, said last month he opposed any move which would see Hanover's role as financial centre reduced.

The two banks have been in talks for some time. In October the city of Berlin, which owns 56.8 per cent of BGB, and Lower Saxony gave their consent to a stepping up of negotiations.

"Now we are in the process of determining what makes business sense," Mr Bodin said. But there had been no concrete decisions.

NordLB said it expected operating profits after provisions to fall in 1996 by 11.3 per cent to DM400m ($256m). The drop was due to a rise in costs, largely caused by investment in data processing systems, the bank said.

Provisions would dip by 0.8 per cent to DM350m. The bank forecast a 3.6 per cent increase in net interest income to DM1.69bn and a 9 per cent rise in commission income to DM250m. Administrative costs are forecast to grow by almost 10 per cent to DM1.2bn this year.

Earlier this week BGB announced it had increased its provisions for this year to DM2.2bn in the light of the poor economic development in the Berlin-Brandenburg region, particularly in the property sector.

ABB opens SFr100m turbine test centre

By William Hall in Zurich

ABB, the international engineering group, has invested SFr100m ($75m) in what it claims is the world's largest gas turbine test centre.

The centre at Birr, in northern Switzerland, which was opened yesterday, can test new turbines under realistic operating conditions and will supply electricity to the Swiss national grid.

The investment reflects the rapid change in ABB's customer base for gas turbines. In the past, ABB tested advances in turbine technology on site at the power stations of traditional utilities. However, the growing importance of cost-conscious independent power producers and the trend towards fewer, but bigger, turbines has highlighted the need for turbines whose reliability can be guaranteed from the moment the power plants start generating electricity.

Mr Armin Meyer, who heads ABB's power generation business, said the centre would allow ABB "to develop the technology of the future much faster than before".

Earnings at ABB's power generation business in the first nine months of 1996 were well below those of the comparable period last year, reflecting overcapacity in the industry.

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Time Warner board to face annual election

By John Authers in New York

All directors of Time Warner, the media conglomerate, are to face re-election annually, the company announced yesterday, in what was perceived as a significant victory for shareholder activists.

Time Warner has a "classified" board, meaning that directors' elections are staggered. Large pension and labour union funds had been campaigning on the issue, and the move by Time Warner, whose corporate governance procedures have long been a target for criticism by institutional investors, is regarded as important.

It also helps to improve market sentiment toward the company after its acquisition of Turner Broadcasting this year. Institutional investors had been critical of the high fees paid to intermediaries during the deal, and the high proportion of the company's stock reserved for employee stock option plans.

The move is also part of a long campaign to reform the company's governance to contend with the legacy of attacks on the high compensation paid to executives under the company's former chief executive, Steve Ross, who died in 1992.

Mr Gerald Levin, Time Warner chief executive, said: "While the classified board served us well, we have now concluded that it is no longer necessary and that shareholders should have a chance to vote on the entire board each year."

He added that the company had "been on a steady course toward enhancing our governance procedures" over the past three years.

The board had already been restructured, reducing its size and the number of insiders.

Director pension plans had been eliminated, and a retirement age had been introduced for directors, he said.

Time Warner said that it was an appropriate time to make the change, in the wake of the Turner acquisition, and denied it was a response to shareholder pressure.

The Council of Institutional Investors, which represents the largest US pension funds and other corporate investors, last year devoted an entire newsletter to a list of its criticisms of Time Warner's corporate governance.

Excessive executive pay under Steve Ross was the main cause of complaint. Grievances included Mr Ross's earnings of $78.2m in 1990, which was 2.5 times the combined salaries of the 605 members of the publishing division laid off in that year.

It quoted one director who on resigning from the board of Warner in 1987, described his fellow directors as "myrmidons" and "stooges", claiming: "I have never in my life been with a board so subservient to the chairman or the chief executive."

It also complained of the provision in Ross's contract which guaranteed that the payment of his salary and bonuses would continue for three years after his death. According to the council, the bonuses were presumably based on past performance.

TCI unveils scheme to cut workforce by 2,500

Tele-Communications Inc (TCI), the US cable-TV and entertainment company, is to cut its workforce by 6.5 per cent and review all expenses not directly related to serving customers, agencies report from Colorado and New York.

The company said it was making the reduction in an effort to strengthen its financial performance, improve its competitiveness and reduce debt.

The nation's largest cable television operator said it would lay off a total of about 2,500 managers and other employees from its corporate headquarters and field offices.

The planned reduction is larger than industry observers had expected, with analysts looking for TCI to cut about 5 per cent of its workforce.

In a brief announcement, TCI said it would also implement salary reductions and pay freezes for senior executives unless the company met its business objectives.

The announcement follows a meeting this week between Mr John Malone, TCI's chief executive, and a group of investors at the company's headquarters in Englewood.

The cost-cutting programme is the latest in a series of moves designed to bolster TCI's disappointing financial performance and its weak stock price.

In particular, Mr Malone has been sharply attacking TCI's operating costs, which have crept up in recent years.

To improve cash flow, Mr Malone is pressing media companies for better terms to carry their cable networks on TCI's far-flung cable systems.

Also, TCI said recently that it plans to raise cable rates for consumers.

TCI faces daunting challenges, including stiff competition from direct broadcast satellite television services whose popularity has grown faster than experts had expected.

TCI shares have recently lingered near their 52-week low of $11¼, but early yesterday they were trading at $13.70.

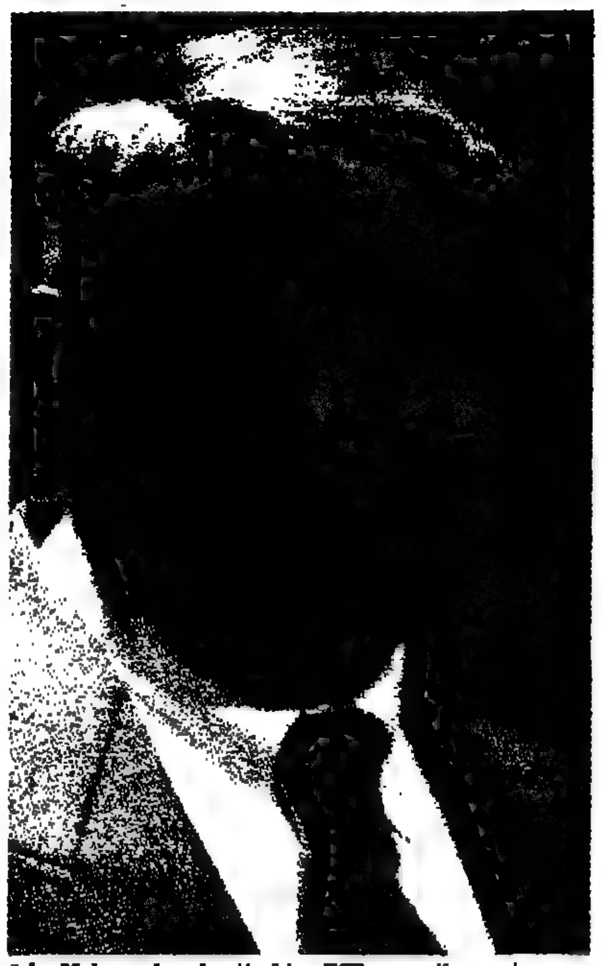
Some analysts were troubled by the idea of workforce cuts. "It is surprising for a company that is supposed to be lean," says Mr John Tinker, an analyst at Montgomery Securities.

Mr Tinker wondered why TCI was "letting people go in an environment of real competition" with telephone companies and digital satellite broadcasters.

The cuts are expected to be divided between the Denver-based corporate staff and the field operations.

Investors applauded TCI's announcement last Monday that it was considering tax-free spin-offs of Liberty Media and its international unit into separate companies.

Liberty's shares climbed by $1⅛ yesterday to $27 in early trading on the Nasdaq Stock Market.



John Malone: sharply attacking TCI's operating costs

Henkel wins control of Loctite

By Richard Waters in New York

Henkel, the German chemicals company, yesterday won control of Loctite, the US adhesives and sealants company.

The two companies signed a merger agreement after Henkel raised its offer to $61 a share in cash, or $1.3bn, for the 65 per cent of Loctite it does not own.

The price paid by Henkel is $5 a share higher than the amount it had first indicated it was willing to pay, and represents a 31 per cent premium to the level at which Loctite was trading before Henkel revealed its interest.

However, it emerged that Loctite had received a rival offer from an unnamed bidder by the Wednesday auction deadline. That all-stock offer valued the company at $64 a share.

The rival bid was conditional on the merger's being treated as a pooling of interests, a US accounting procedure that enables an acquiring company to complete a deal without creating goodwill on its balance sheet.

Such a condition is likely to have been difficult for Loctite to meet given Henkel's existing 35 per cent stake in the company, a person close to the German company said.

Yesterday's agreement follows a six-week tussle between the two sides, in which Loctite had sought to maximise the amount it could raise from a sale.

At $61 a share, the final offer values the US company at about 20 times the average of its expected 1996 and 1997 earnings, according to Henkel.

That represents a premium to the 17 price/earnings ratio of the Standard & Poor's 500 index as a whole, but is in line with the ratio which Loctite has enjoyed as an independent company in recent years, reflecting its greater growth prospects.

For Henkel, the acquisition brings a company with extensive US and international operations and a leading position in air-drying adhesives for consumer, industrial and automotive uses.

In a statement, Mr Robert Fiondella, who headed the special board committee set up by Loctite to consider bids, called the final Henkel offer "excellent value for our shareholders".

Yield-starved investors take long view

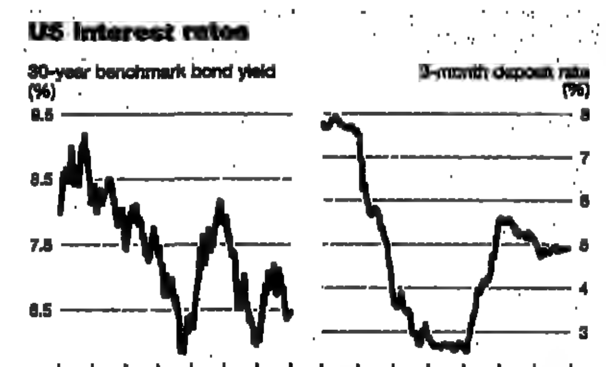
IBM's 100-year bond caps a record year for high-risk debt issuance in the US

The prolonged bull market for US bonds has created problems for fixed-income investors. Yields are low, and the prospect of big price gains is limited. The benchmark 30-year Treasury – or long bond – yield is back down to a meagre 6.5 per cent, in sight of last year's lows of just below 6 per cent.

The answer: to take more risk in order to get slightly better yields and so, it is hoped, outperform other bond fund managers. As a result, investors have turned their attention to very long-dated corporate bonds, preferred stock and junk bonds.

Earlier this week, IBM issued the largest ever 100-year corporate bond, bringing the total amount of "century bonds" to a record $2.3bn so far this year, nearly twice last year's volume, according to Securities Data, which tracks new issues. The $31bn of preferred stock issued in the US market in 1996 has also exceeded last year's record of $16bn, and junk bond issuance is at its highest level since 1993, with $73bn of public and private deals so far.

All these instruments pay higher interest than ordinary corporate bonds, to compensate for the extra risk taken by investors. In the case of 100-year bonds, the additional risk is the longer maturity; for preferred stock – which provides financial institutions with equity-type capital, but pays investors a fixed rate of interest – investors rank below bondholders as creditors; and for junk bonds, issued by companies rated triple-B or below, there is greater credit risk.



Source: Datastream

But investors' appetite for these types of paper reflects not only their hunger for yield but also their high level of confidence. "No one sees a recession in the next few years; the economic outlook is benign, and growth and inflation are moderate," said Mr Mark Seigel, head of debt syndicate at Morgan Stanley.

Investors are sanguine about the increased risk of 100-year bonds, pointing out that most of the value lies in the cash flow of the first few decades. "It's just another piece of corporate debt," said Mr Tom Poor, a managing director of fund management company Scudder. The long maturity does not add significant risk "unless the market for this class of debt dries up".

In fact, demand for these types of securities is so strong that investors are willing to accept shrinking yield spreads, relative to US Treasuries. In the preferred stock market, for example, which has seen nearly $10bn of issuance in the last month, there has been a "dramatic compression" of spreads, according to Mr Seigel. This is illustrated by the experience of Wells Fargo, the West Coast bank, which tapped the market on November 20, paying 162 basis points more than the comparable US Treasury yield; the next day, it borrowed again, but this time the spread was down to 150 basis points. By November 25, when it returned to the market for a third time, it was able to pay just 125 basis points.

But is investors' willingness to take more risk – and for increasingly smaller rewards – a sign of over-confidence? It has happened before – in the junk bond market of the late 1980s, and in the perpetual floating-rate note market in the mid-1980s – and both of them crashed when confidence ebbed. Although these investments appear justifiable from a portfolio strategy perspective, "no-one knows where IBM will be in five years' time, let alone in 100 years' time", said one bond market strategist.

Even without a market crash, the fad for 100-year bonds, at least, may prove short-lived. Very long-dated bonds are extremely attractive as funding for companies because they provide equity-type financing yet the interest paid is tax-deductible. However, many expect that this loophole will be plugged early next year by a ban on bond issues longer than 40 years. Such as change could be introduced in the February 3 budget. It would have to be passed by Congress, but could be effective from the start of the year.

Meanwhile, corporate America, just when it needs cash the least after several years of strong earnings growth, is awash with offers for cheap capital – so cheap that IBM, in spite of its $7bn cash pile and only $2bn of core debt, could not resist raising another $850m of 100-year bonds this week.

Tracy Corrigan

AMERICAS NEWS DIGEST

Carp emerges as future Kodak head

Mr Daniel Carp, a 48-year-old executive who has spent his working life at Eastman Kodak, emerged yesterday as the eventual likely successor to Mr George Fisher as head of the US photographic company.

Mr Carp was named president and chief operating officer of Kodak, making him the clear winner from a two-way race which had also involved Mr Carl Kohrt. Both men had been members of a so-called chief operating office set up by Mr Fisher in November 1995. The Kodak chairman said yesterday the two executives "complement each other's strengths and work extremely well together". By naming Mr Carp president, though, Mr Fisher clearly marked him out as the company's next head.

The timing of the announcement also appeared to signal that another milestone had been reached in Mr Fisher's efforts to turn Kodak's fortunes around. Since joining the company three years ago, the highly-regarded former Motorola boss has focused Kodak's operations on its imaging business. This strategy has taken it out of pharmaceuticals and chemicals. He has also reshaped its operations to cut costs, and worked on building a new management team.

The appointment of a president, a position that has not existed at Kodak for some years, would allow Mr Fisher to stand back more from daily operations to concentrate on strategic issues, Mr Carp said. Mr Fisher also this week accepted a seat on General Motors' board, though the company said this would not reduce his involvement at Kodak. Mr Carp said: "George [Fisher] has two years to go on his contracts, but he will stay as long as necessary to be sure that the company is as well positioned as possible for the future." Mr Carp until recently ran Kodak's European business from London, and has also been in charge of its Latin American and Canadian businesses.

Richard Waters, New York

Chrysler lifts buy-back target

Chrysler yesterday added another $1bn to its stock buy-back programme, confirming the strong cash position that has already enabled it to repurchase $2bn of its shares so far this year. At the same time, the smallest of the 'Big Three' US automakers lifted its annual dividend from $1.40 to $1.60.

Yesterday's steps are the latest in a series taken in the 18 months since the company's biggest shareholder, Mr Kirk Kerkorian, attempted a buy-out of the company. Mr Kerkorian's complaints that Chrysler was amassing too much cash eventually prompted the company to announce previous buy-back plans, though it has held firm to its position that it needs cash reserves of $7.5bn to cushion it against the next US economic downturn.

Mr Robert Eaton, chairman, said yesterday the increase in the share repurchase plan, which would double the potential repurchases next year to $2bn, reflected earlier promises to return excess cash to the company's shareholders. He also indicated that the plan reflected the view of Chrysler's board that economic conditions would remain favourable for the company in 1997.

In all, Chrysler has bought 108m shares in the past two year, or some 13 per cent of the total. At yesterday's share price, its plans for further repurchases would cover nearly 8 per cent of the shares outstanding at the end of the third quarter. Chrysler's shares rose $1⅝, or 4 per cent, to $36⅝ on the news, though they fell back later yesterday morning to $35⅝. They are now trading around 75 per cent higher than their level at the time Mr Kerkorian revealed his buy-out approach.

Richard Waters

Good year for CIBC

Strengths in investment banking and brokerage, growth in corporate and consumer lending and lower loan losses enabled Canadian Imperial Bank of Commerce, the country's second-biggest bank, to post a 35 per cent gain in earnings for the year ended October 31.

Net profit was a record C$1.37bn (US$1bn), or C$6.04 a share, against C$1.01bn, or C$4.18, in fiscal 1995. Return on assets was 0.73 per cent against 0.64 per cent, and on equity 17.1 per cent against 12.9 per cent. Fourth-quarter net profit was C$341m, or C$1.50 a share, up 14 per cent from C$298m, or C$1.26. Assets at October 31 were C$199bn, up 11 per cent. CIBC is raising its quarterly dividend by 5 cents to 50 cents in January.

CIBC Wood Gundy, the investment banking unit, raised income by 122 per cent to C$528m in the year, helped by rising stock markets and strong underwriting activity, said Mr Al Flood, chairman. The core consumer and corporate banking business performed well, with healthy contributions from new and high-growth segments such as insurance, telephone banking and debit cards. Loan loss provisions dipped C$200m to C$480m and net impaired loans declined to C$692m, or 0.5 per cent of total loans. About 27 per cent of the bank's earnings came from outside Canada.

Robert Gibbens, Montreal

Corimon offer to creditors

Corimon, the Venezuelan paints group, is moving ahead with a debt-for-equity swap as part of a plan to overcome its financial troubles. Some 33bn bolivars ($70m) of preferred Class B shares will be issued to financial creditors, who have until December 13 to subscribe. Those that accept the terms will be entitled to preferred dividends from August 16. Corimon last year ran into difficulty with servicing its debt.

Raymond Colitt, Caracas

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US airlines locked on to a consolidation flight-path

Delta and Continental will not confirm merger talks, but many in the industry see alliances as inevitable, says **Richard Tomkins**

No marriage yet: but every US carrier worries about being left on the shelf

Delta Air Lines and Continental Airlines may refuse to confirm they have been holding merger talks, but the notion is undoubtedly true – if only because, right now, the US airline industry is one in which everyone is talking to everyone about the possibility of a deal.

Many in the industry believe a round of consolidation is about to take place, and the fear that haunts every airline is that, as in the parlour game known as musical chairs, it is the only one left standing when the music stops.

At present, the US airline industry includes seven big groups. The first division comprises United Airlines, American Airlines and Delta, and the second division comprises Northwest Airlines, USAir, Continental and Trans World Airlines.

These companies are the survivors of the many changes that have taken place since the deregulation of the US airline industry in 1978. That provoked a wave of bankruptcies and mergers, and also cleared the way for scores of new, start-up airlines to enter the business.

For all the changes that followed deregulation, the 1990s have been marked by a period of relative stability. There have been no big bankruptcies or mergers for several years: the main event has been the continuing battle between the big, established carriers and the cheeky start-ups with their low costs and low fares.

That uneasy equilibrium, however, was shaken last year when USAir started merger talks with United Airlines and American Airlines. In the end, USAir's high labour costs proved a sticking point and the talks broke down, but the affair was enough to start people thinking about consolidation.

Since then, another event has increased the pressure: the proposed alliance between American Airlines and British Airways, announced earlier this year. If consummated, this alliance would greatly strengthen American in relation to the other US airlines, upsetting the existing balance.

The rationale for an industry consolidation lies in the fact that US airlines find it hard to increase profits in the largely mature domestic market. The growth in domestic air travel has slowed and there are no new, untapped markets to go for. Meanwhile, many of the big carriers' most profitable routes are besieged by competition from start-up carriers.

Inevitably, therefore, some in the industry are considering the possibility of growing through acquisition: and at a time when profits have recovered sharply from a long run of losses, the larger companies have the necessary financial means.

One possible obstruction could be the antitrust argument. But, if anything, this adds to the pressure to merge as quickly as possible, for as the number of airlines dwindles, the last mergers are the ones most likely to face regulatory hurdles.

That said, industry analysts are sceptical about a combination between Delta and Continental.

Delta, a paternalistic company with a largely non-union workforce, has spent the past two years going through a wrenching cost-cutting exercise that has put a strain on its historically good labour relations. The last thing it needs just now, say some analysts, is the disruption that a merger would cause.

Mr Philip Baggaley, an analyst at Standard & Poor's, says the acquisition of Continental would add about $5bn of debt and leases to Delta's balance sheet at a time when the company has been trying to improve its credit rating – even without the cost of the acquisition itself, which would be at least $2bn.

"Almost all airline mergers have been very difficult in one way or another," Mr Baggaley says. "The costs of the lower-cost airline tend to rise to those of the other airline, and the labour problems are very difficult, with all the problems of integrating the seniority lists of organised employees – notably the pilots."

Yesterday the stock market seemed to have convinced itself that the excitement over the supposed Continental-Delta merger was overblown: it marked down Continental's shares $1 to $29⅞ in early trading, little changed from the price before the speculation began.

"We are probably at the doorstep of consolidation in the industry, but it's another question whether we are at the doorstep of a Continental-Delta marriage," says Mr Kevin Murphy, an analyst at Morgan Stanley. "It's a little opaque right now."

Record year lifts Opic hopes on reauthorisation

By Nancy Dunne in Washington

The Overseas Private Investment Corporation, the US agency that promotes foreign investment and narrowly avoided the congressional axe this year, yesterday announced it had earned a record $209m profit in the year to October.

Mrs Ruth Harkin, Opic president, said she did not expect difficulty in getting the agency reauthorised in 1997. Anything connected with foreign trade was at risk before the November elections, she said.

Even while under fire from conservatives in Congress, who had targeted Opic as an example of "corporate welfare", the agency was breaking records for the disbursement of project financing and political risk insurance. It committed $2.2bn to a record 169 projects, including 27 new ventures in Russia, where it has been particularly active.

Opic's political risk insurance has been in increasing demand as US companies move into the emerging markets. The agency sold $16.5bn in political risk insurance last year, up from $8.6bn in fiscal 1995. Its record of recovery on claims paid out is 98 per cent, and last year it recovered $2.8m from old claims, including some repayment from Vietnam.

The agency committed $2.2bn for project financing and new private investments funds, up from $1.8bn the previous year. During the Clinton administration, the number of funds has soared in regions where the US is pushing private sector development. There are now 24 funds, including two in the Middle East and six in the former Soviet Union.

The year's financings include the first private power project in Morocco, agribusiness projects in Russia, small telecommunications ventures in sub-Saharan Africa and $200m in political risk insurance provided for a new liquefied natural gas project in Oman.

Although Opic is likely to survive, it is not clear in what form. The administration has been considering a restructuring of the export credit agencies and a possible merger of Opic; the US Export Import Bank, which finances exports; and the Trade and Development agency, which finances feasibility studies.

Mrs Harkin said the agency was in good shape, with reserves of more than $2.7bn.

Telefónica del Peru disputes tariff cut

Telefónica del Peru said it would contest a ruling that will lower its revenues from the rental of lines and circuits by about 17m new sol ($3.9m) in 1997, AP-DJ reports from Lima.

The Peruvian state telecommunications regulator, Osiptel, reduced by 35 per cent the maximum tariffs on the rental of lines and circuits for data transmission. The tariffs had not changed since June 1993.

Telefónica called the decision "unjustified" and said it would ask for the dispute to be resolved under legal procedures established in its concession agreement.

The company had revenues of 794.4m new sol in the third quarter ended September 30. Year-ago fourth-quarter revenues were not available.

Telefónica said it could not estimate the impact on domestic and long-distance revenues from traffic routed through affected circuits.

Its shares fell to $1.97 at the close from a mid-session high of $2.02. Analysts attributed this to the wider implications of the ruling.

"Relatively speaking, the loss isn't so important," said Flemming's Ms Raquel Lizarraga. "The fear is that the decision means Osiptel can change the rules whenever it wants."

Canadian Airlines rescue up to union

By Bernard Simon
in Toronto

The Canadian Auto Workers union was last night considering whether to urge its members to reject a rescue package for Canadian Airlines International.

Rejection by the 3,600 CAW members would give the ailing Calgary-based carrier few options but to seek protection from its creditors.

The union's predicament stems from a decision by the federal government to use an obscure section of Canada's labour laws to force a vote on the rescue plan among CAW members at Canadian Airlines, who are mostly ticket agents.

The CAW is the lone dissenter on the plan among the six unions representing Canadian's 16,400 workers. The carrier's creditors, as well as American Airlines, which holds a 33 per cent equity stake, have also agreed to concessions, provided the plan is accepted by the unions.

The most contentious part of the rescue is a demand for wage cuts. The airline originally demanded a 10 per cent reduction, but later agreed to a sliding scale of cuts averaging about 5 per cent, after the federal government and the provinces of Alberta and British Columbia offered support in the form of fuel-tax rebates.

The plan also includes a route restructuring, under which Canadian, the smaller of Canada's two national airlines, would divert resources from the highly competitive domestic market to more lucrative trans-Pacific and US-Canada routes.

The airline has warned that, without the rescue package, it will run out of cash in early 1997. Creditors have indicated they may begin seizing assets if the unions fail to agree to the wage cuts.

Mr Kevin Benson, chief executive, said ticket sales had dropped about 15 per cent in the past week, and some suppliers had insisted on cash payments.

The government defended its move to force a vote, on the grounds that it wanted to protect jobs at the airline. The section of the Canada Labour Code that it has invoked gives Ottawa broad powers to "maintain or secure industrial peace".

Mr Buzz Hargrove, CAW president, accused the government of undermining the collective bargaining process. He said the union would decide within the next day or so whether to recommend rejection of the plan.

French bank renews Malaysia push

By James Kynge
in Singapore

Crédit Lyonnais, the French state-owned bank, has renewed its drive for a licence to set up a branch in the increasingly popular Malaysian offshore tax haven of Labuan.

Mr Jean Peyrelevade, the bank chairman, visited Mr Ahmad Mohd Don, the governor of Malaysia's central bank, this week to convince him that Crédit Lyonnais' financial troubles were resolved, and to ask that the licence – which the bank first applied for about a year ago – be granted, a Crédit Lyonnais executive said.

Labuan, a small island off the coast of Borneo, has been designated an international offshore centre by Malaysia's central bank. Initially it attracted little interest, but that changed when the government ruled in November that Malaysian companies – as well as foreigners – can set up there. To date, 51 offshore banks, 15 trust companies and five insurance companies have been given permission to operate there.

The Crédit Lyonnais executive said the central bank had not given any indication when it might grant the licence. He said the bank would use a Labuan branch for corporate banking, project finance in Malaysia and for investment funds.

Because there is no lending in the Malaysian ringgit under Labuan regulations, Crédit Lyonnais' operations there would not pose any competition to local banks.

The executive said many Malaysian companies were looking to expand out of their country into the region, and Crédit Lyonnais was interested in financing such offshore expansions from Labuan. He said the island's 3 per cent corporate tax rate and absence of withholding tax were attractive.

Earlier this week, Mr Peyrelevade said Crédit Lyonnais' Asian operations were set to record net profits of US$150m this year, a rise of about 30 per cent. He said the Asia-Pacific operations of the bank would continue to provide steady increases in profits over the next few years.

Giordano lays long-term foundation

HK clothing retailer is breaking with the past by seeking to establish a brand identity

An executive from Giordano, the Hong Kong clothing retailer, has been visiting Milan recently, scouting the potential for a new store. "We are planting seeds," says Mr Peter Lau, chairman. "Maybe my successors will reap the harvest."

Mr Lau is quick to play down the prospect of any rapid returns from the Italian fashion centre, stressing that Giordano's Asian markets, and China in particular, are where the company's focus and profits are currently to be found.

But the foray is significant. It reveals both the long-term planning of the company after the departure of Mr Jimmy Lai, its founder, and a rare emphasis on brand-building by a Hong Kong retailer. As such it provides clues as to whether local brands can hold their own in the face of fierce international competition.

"In the past, Hong Kong clothing companies have had little time for building brands or image," says the head of one local advertising agency. "It was very much hit and run. You grew the business until it was big enough to be listed on the stock exchange, then you cashed in. Either that, or you stayed a source for a foreign label."

The reason, says Mr Lau, lies partly in the mentality created by political circumstances. "We have had the mentality of a borrowed place, borrowed time," he explains, referring to the end of British sovereignty over Hong Kong in July next year.

Giordano's ambitions to build longer-term foundations have not been without pitfalls. For despite rapid growth, which has seen annual sales treble from HK$1.17bn (US$151m) in 1991, the company has suffered its share of problems.

In addition to intense competition in the market, it has faced political obstacles. Mr Lai's strong criticism of China's premier, Mr Li Peng, in 1994, sparked store closures on the mainland. The controversy rumbled on into this year even after the outspoken media tycoon left the board and sold his remaining shares.

Peter Lau: company is planting seeds for the future

In Taiwan, the group's biggest single market, a score of managers were replaced this year after sales stagnated. "There seems to have been a breakdown in relations with Hong Kong HQ," says one retail analyst. "It has required a lot of sorting out." The 19 per cent fall in first-half sales in Taiwan was one cause of disappointing group results for the period; which were flat at HK$110m.

More broadly, the performance reflected the risks involved in building the company's operations through franchises. The costs of expansion and advertising mean that franchises are often the quickest route to growth, but they also bring the risk that management control will be weakened.

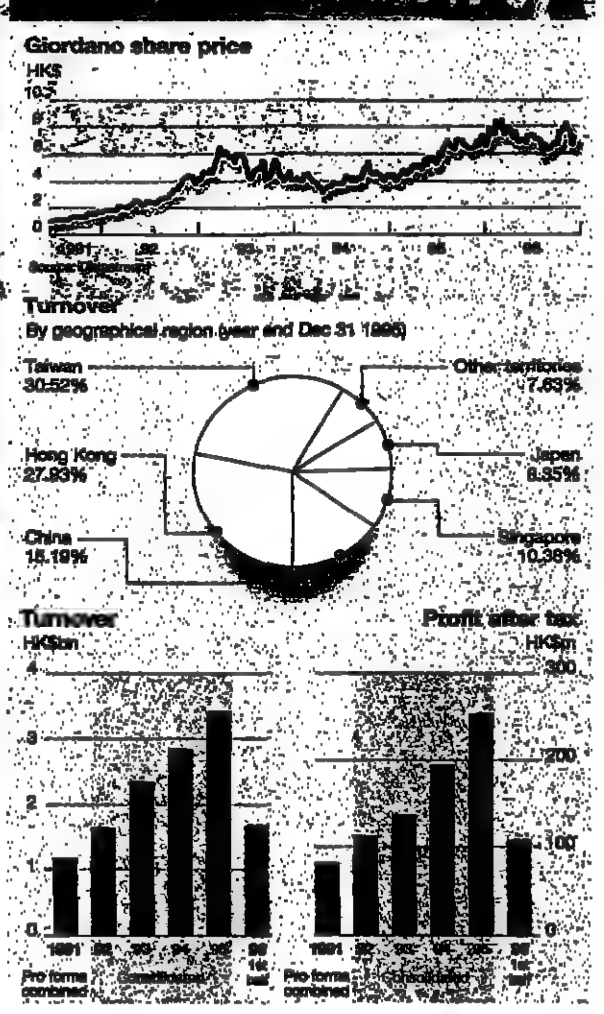
Mr Lau shrugs off the setbacks. Franchises, argues the Giordano chief, have proved successful for the group, allowing it to penetrate markets more rapidly than it could with stand-alone operations.

"We are entering India with a joint venture because they have their own managerial culture and understanding", he says. The company's image is maintained, says Giordano, through training programmes and standardised designs.

Officials on the mainland remain wary of the group, but the worst appears to have passed. Giordano is in negotiations with a subsidiary of the ministry of agriculture about the establishment of stores in Beijing, and its business has proved resilient. Despite the store closures earlier this year, mainland sales rose almost 30 per cent in the first half to HK$271.5m.

"Giordano is seeking to position itself as a value-for-money, accessible store, and there is strong demand for that approach", says one Hong Kong retail analyst.

This image, says Mr Lau, will remain at the centre of the group's strategy. "We want to create an atmosphere of honesty, openness and reliability." At least as important, he argues, is the creation of management structures allowing flexibility in production and marketing.



"You have to choose your playing field and be able to change fields quickly", says Mr Lau. "If local companies take on the big international groups head on, the battle will be very bloody, and much of the blood will be yours."

Giordano certainly acts quickly. One example is its introduction of products emblazoned with the image of Hong Kong's Olympic windsurfing champion this summer. "That took them just a few days", says an executive at a rival retailer. "In terms of innovation, production and delivery times, they have a very slick machine."

But Mr Lau is not content to rely on one-off opportunities or niche markets. "Niches do not last, so we are trying to build something longer-lasting, to create an image", he says, citing Disney and Body Shop of the UK as models. The Giordano feeling, he says, is tied to value and "low risk" shopping. After the turbulence of 1996 – particularly on the mainland – it is a sentiment that investors might share.

John Ridding

ASIA-PACIFIC NEWS DIGEST

Carter Holt to upgrade pulp mill

Forestry group Carter Holt Harvey is to spend NZ$300m (US$213.9m) upgrading its pulp and paper mill at Kinleith in the central North Island. The project, one of the biggest industrial developments in New Zealand, will be completed by mid-1998. Production will increase 30 per cent to nearly 600,000 tonnes a year.

Mr John Faraci, chief executive of Carter Holt Harvey, which is controlled by International Paper of the US, said the expansion was consistent with the company's strategy of adding value to its New Zealand production, and would ensure cost competitiveness in international markets.

The main components of the modernisation include a 100,000-tonne-a-year waste recycling operation, pulp-processing and drying machinery and an increase in container-board production. Most of the production will be targeted at Asia. *Terry Hall, Wellington*

Highlands shares top bid price

Shares in Highlands Gold, the Papua New Guinea-based mining group facing an unwanted A$420m (US$335.8m) takeover from Canada's Placer Dome, edged above the bid price yesterday, with some of the buying coming from a PNG-based institution which said it believed the stock was undervalued.

The National Provident Fund in Port Moresby said the purchases had taken its stake to 5.5 per cent from 4.8 per cent. Mr Robert Kul, NPF managing director, said there was considerable potential in Highlands' two well-advanced exploration projects – the Ramu and Frieda River deposits – and that the fund had bought the shares as a long-term investment above the bid price.

Placer's offer was 75 cents a share, a level described by Highlands as inadequate. Highlands shares closed 2 cents higher at about 77 cents yesterday. *Nikki Tait, Sydney*

Australis reduces losses

Australis Media, the Australian pay-TV operator, incurred an after-tax loss of A$51.1m (US$40.85m) for the three months to end-September, compared with a deficit of $87.7m in the preceding quarter.

Sales revenue was A$26.4m, an increase of A$6.1m on the preceding quarter. This included more than A$6m of revenue from the company's programme supply agreement with Foxtel, the rival cable-based pay-TV operator. Total subscribers at end-November were 313,000, made up of 98,000 Australis subscribers, 95,000 franchisee subscribers and 120,000 Foxtel subscribers.

The company, which in 1995 became the first pay-TV company to start operating in Australia, has recently been battling to secure new funds. It finally completed an A$316m refinancing plan in November, with help from Mr Kerry Packer's Publishing and Broadcasting group. Australis warned yesterday it expected "significant negative cashflow from operating activities and investing activities in each fiscal year to at least fiscal 1998".

Nikki Tait

Dickson compensation nearer

Dickson Concepts yesterday said the US bankruptcy court had approved an application to reimburse up to $1m of costs incurred in its due diligence investigation of Barney's, the New York-based department store. The application was filed by Barney's creditors. Dickson expects to complete the due diligence in January.

Mr Edwin Ing, group executive director and company secretary, said: "Once the due diligence is completed, the company will only then consider whether to submit a definitive proposal to Barney's in relation to the company's possible investment in Barney's."

AFX-News, Hong Kong

New distribution unit at Acer

Acer Sertek, the distribution arm of Acer, the Taiwanese computer company, is to set up a unit for the distribution of products in communications, and computer and consumer electronics. It will begin operating on January 1. Acer Sertek has invested T$199m (US$7.24m) in the business. *AFX-News, Taipei*

Olympics rights for TVNZ

TVNZ, the government-owned television network, has won the New Zealand TV rights to the Olympics Games in Sydney in 2000. The sale price is thought to be about US$10m. *Nikki Tait*

Prices for electricity determined for the purposes of the electricity pooling and settlement arrangements in England and Wales.

1/2 hour period ending	Provisional Price for Trading on [illegible]: Pool purchase price £/MWh	Final Prices for Trading on [illegible]: Pool purchase price £/MWh	Pool selling price £/MWh
0030	11.75	11.68	13.16
0100	15.53	12.01	[illegible]
0130	26.35	12.01	[illegible]
0200	26.35	12.01	13.48
0230	21.42	11.68	[illegible]
0300	21.42	11.68	13.15
0330	20.26	[illegible]	[illegible]
0400	20.26	11.68	11.68
0430	11.88	11.67	11.67
0500	11.73	11.66	11.66
0530	11.69	11.67	11.67
0600	11.71	11.67	11.67
0630	11.73	11.68	11.68
0700	15.99	17.08	18.54
0730	17.35	17.28	18.75
0800	17.73	17.29	18.76
0830	18.75	17.41	18.88
0900	19.00	18.58	20.05
0930	24.20	18.58	20.05
1000	24.23	18.58	20.05
1030	24.07	[illegible]	20.05
1100	18.88	18.58	20.05
1130	18.83	18.58	20.05
1200	18.79	18.58	20.05
1230	17.82	18.58	20.05
1300	18.62	18.58	20.05
1330	17.40	17.41	[illegible]
1400	17.38	17.29	18.77
1430	17.38	17.29	18.76
1500	17.38	17.29	18.76
1530	11.97	[illegible]	12.25
1600	13.32	12.28	12.28
1630	43.81	19.41	21.08
1700	88.35	28.96	[illegible]
1730	104.75	37.72	40.19
1800	82.33	37.33	39.71
1830	40.68	[illegible]	28.88
1900	24.81	23.96	25.48
1930	19.65	19.42	20.91
2000	18.60	19.37	20.84
2030	18.47	18.37	19.84
2100	18.46	18.88	20.33
2130	18.46	18.37	19.84
2200	17.33	18.37	19.84
2230	11.79	17.28	18.75
2300	11.69	17.29	18.76
2330	11.69	17.29	18.76
2400	11.71	[illegible]	11.68

Prices are determined for every half-hour in each twenty-four hour period. Prices are in pounds per megawatt-hour, rounded to two decimal places. To convert prices to pence per kilowatt-hour the decimal point should be moved one place to the left, eg £18.05/MWh becomes 1.805p/KWh. Provision for the determination of pool prices is made in the Pooling and Settlement Agreements which govern the operation of the electricity pool in England and Wales. The Pool Purchase Price is the basis of the majority of payments made [illegible] in respect of electricity traded through the pool. The calculation of pool prices is a highly complex process the product of which is subject to revision or correction (and sometimes major alterations) until final pool prices are determined approximately twenty-four days after the day of trading. Accordingly, due to the possibility of their revision and/or correction, no reliance should be placed upon [illegible]

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Higher advertising expenditure boosts spirits growth

GrandMet achieves £965m

By Roderick Oram, Consumer Industries Editor

Brendan Corr

George Bull, chairman – will seek approval for share buy-back

The long-touted recovery of world spirits markets gained credibility yesterday when Grand Metropolitan, the UK drinks and food group, reported one of the sector's best profit increases for years.

Reaping the rewards of higher advertising expenditure, International Distillers & Vintners, GrandMet's drinks arm, lifted prices and volumes of key brands such as J&B Scotch whisky and Smirnoff vodka at a faster rate than its competitors. "I take some heart from the performance," one analyst said. "Hopefully, we'll eventually see a similar performance from Guinness and Allied Domecq."

The City considers that GrandMet started streamlining its drinks business and spending more on marketing its brands about a year to 18 months ahead of its rivals.

GrandMet's operating profits from drinks rose 4 per cent to £471m ($772.4m). Coupled with an acquisition-boosted rise of 30 per cent to £431m from Pillsbury, its main food business, GrandMet reported pre-tax profits of £965m, up 5.8 per cent, for the year to September.

The strong performance and analysts' forecasts of some £500m of free-cash generation this year further fuelled hopes it would buy back about 5 per cent of its shares. It will seek approval for a 10 per cent buy-back at its AGM in March.

However, its shares eased 10p to 446½p as analysts forecast the strong pound would cost it about £30m in profits this year.

North America was the one flat region for drinks profits, but GrandMet achieved its first price increase there on Smirnoff in five years. In contrast, spirit volumes were up 9 per cent in Europe and by 11 per cent in India and Brazil.

Hanson's era ends with City unimpressed

By Ross Tieman

Hanson delivered its final set of results as a conglomerate not with a bang, but with a whimper, yesterday unveiling underlying profits down 9.6 per cent to £1.2bn ($1.96bn).

At the pre-tax level, the results for the year to October 1 were bolstered by £633m of exceptional gains on disposals, including Seven Seas vitamins, Cavenham forest products and Suburban Propane.

Aided by the release of £193m of provisions previously ear-marked for environmental liabilities, Hanson lifted pre-tax profits to £1.81bn (£1.23bn).

With US Industries, Imperial Tobacco and Millennium Chemicals demerged, analysts described the figures as an "historical curiosity".

But brokers will search for clues about prospects for the Energy Group, to be demerged in February, and the ongoing Hanson building materials business.

A prospectus for the demerger of The Energy Group, the final phase in the break-up, will be unveiled on Wednesday. Lord Hanson, chairman, lamented the lowly stock market ratings.

"The combined value of Hanson and the demerged companies was 195p on December 1 1995, and now stands at 150p" he said. "This in no way represents either our earnings capacity or future prospects".

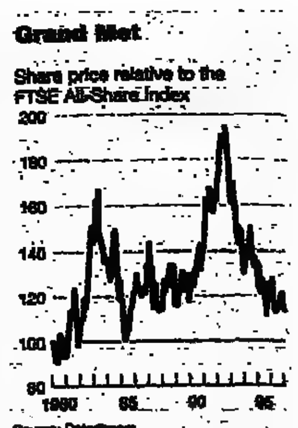
Hanson shares added just ¼p to 80p, encouraged by a 1p dividend, in effect a first quarter pay-out from the energy and building materials businesses. Henceforth, the companies will switch to interim and full-year distributions.

In building materials, the US operations took advantage of strong demand to lift operating profits 35 per cent.

The Energy Group lifted operating profits from £167m to £458m. But operating profits from Peabody, the US coal miner, slipped from £160m to £154m.

LEX COMMENT

GrandMet



Grand Metropolitan is grasping the concept of shareholder value with the zeal of a religious convert. Yesterday's results show why. Even after recent disposals, the group's return on invested capital is a paltry 8 per cent. And returns from its last big acquisition, the £1.7bn purchase of Pet in 1994, are considerably lower following the unfortunate downturn in US demand for Mexican sauces. In this context, the management's emphasis on getting decent returns on capital means an end to deals. Investors should be delighted, since there is plenty to do within the existing business portfolio.

The spirits division is already responding to rationalisation and more effective marketing – 7 per cent profits growth in the second half may not sound like much, but by the standards of this industry it is explosive. Burger King has been left behind by McDonalds in Europe and Asia, offering significant scope for catching up. Restructuring at Pet should also start to pay – although GrandMet is having to run fast just to stand still given the current weakness of the dollar.

The most concrete evidence of this new philosophy will come in the form of a £500m distribution, probably accompanying the interim results next year. This will underline the strong cash generation of the business and help keep the management on the straight and narrow. Besides, given the group's pay-back from acquisitions, investors are better getting cash up front.

Mixed signals from Centrica

Robert Corzine finds analysts confused over the gas concern's independent prospects

Centrica may not be the most elegant or informative of names for a natural gas company. But for senior executives at British Gas's domestic supply, trading, retail and services businesses, the new identity, however ungainly, is a powerful symbol of their long-awaited independence.

In recent months, it has become clear that the different branches of British Gas were rapidly diverging. Mr Richard Giordano, BG's chairman and chief executive, acknowledged as much yesterday when he spoke of the "very different roles" of the two companies in the UK gas industry.

Mr Giordano has long believed that the domestic gas business would have to undergo a cultural revolution to survive in the competitive market that is being introduced during the next two years.

Mr Roy Gardner, Centrica's chief executive, yesterday vowed to deliver that revolution. Improved customer performance would be the first priority. Renegotiation of the take-or-pay contracts was relegated to third place in the list of objectives, after retention of market share in the domestic gas sector of 19m customers.

Centrica plans to expand beyond natural gas, to the supply of electricity. Further household-based financial and insurance products will also be introduced to complement the Goldfish credit card launched introduced this year.

But even if the group's strategy is clear, uncertainties about its prospects abound. Renegotiation of take-or-pay contracts with at least one leading North Sea gas producer has been seen as a prerequisite for the demerger of Centrica. But yesterday's BP deal may not be a model for others.

Mr Giordano said talks were proceeding "field by field". Some deals would be done for cash, while others would probably be based on the exchange of assets, with stakes in the giant Morecambe gas field likely to figure prominently in any such deals. Mr Gardner predicted that "one or two" other deals may emerge before the demerger in February.

Industry analysts yesterday expressed widely varying views of Centrica's prospects. One thought it "in a strong position", in spite of having solved only a small part of its take-or-pay problem. "They are still the dominant supplier, with access to a lot of gas and the right sort of gas." That was a reference to Morecambe Bay, whose output can be cranked up quickly to respond to spurts in demand.

Others complained that, valuing the company was virtually impossible.

Mr Gardner yesterday confirmed that Centrica would not pay a dividend in the immediate future, because of uncertainties over how much market share it would lose as a result of gas market liberalisation, and the continuing uncertainty over the cost of the gas it bought from North Sea suppliers.

But Ms Irene Himona, at London broker Société Générale Strauss Turnbull, said those same uncertainties made it impossible to place an accurate valuation on the company.

"We still lack the fundamental bits of the puzzle," she said. "We don't know its revenues or its costs, so how can we predict what its profits will be?"

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GUS dips and warns on year

By Peggy Hollinger

Great Universal Stores yesterday reported its first profit fall in 48 years and cautioned the market to rein in expectations for the full year.

Shares in the mail order and business information group tumbled 24½p to 651½p, as chairman Lord David Wolfson of Sunningdale warned that trading in the core mail order business remained difficult. Furthermore, adverse exchange rates would have "significant effect" on annual profits, he said, and had cut £5m ($8.2m) from first-half profits alone.

As the company had warned earlier this year, intense competition in UK mail order held pre-tax profits in the half-year to September down 1 per cent at £235.6m.

Sales were marginally up at £1.21bn.

Lord Wolfson, who became chairman in August, admitted that breaking the profits record was not "necessarily the sort of record I would have sought to achieve".

The comments came as an abrupt reminder that GUS still relies on traditional agency mail order, a mature market in the UK, for almost a third of annual profits.

The market had been carried away with its recent $1.67bn acquisition of the US business information services group Experian, said one analyst, and had forgotten "just how difficult things are in home shopping. It's not very pretty."

GUS reported a fall in home shopping operating profits from £72.4m to £61.3m. The decline was sharpest mainly in the UK, where profit dropped from £54.5m to £44m. Initially, GUS was investing to bring service levels to industry standards – such as two-day delivery. He estimated the group had incurred £3m-£5m in extra one-off costs as a result.

The property division made £33.5m (£31.9m).

RESULTS

		Turnover (£m)		Pre-tax profit (£m)		EPS (p)		Dividends: Current payment (p)	Date of payment	Corresponding dividend	Total for year	Total last year
Abbeycrest	6 mths to Aug 31	25.4	(22.7)	0.186	(0.09)	0.5	(0.3)	1.3	Jan 17	1.2	-	3.6
Airsprung Furn	6 mths to Sept 30	41.2	(39)	2.52♠	(1.8)	6.06	(4.43)	1.95	Jan 24	1.7	-	5.4
Alvis	Yr to Sept 30	90.4	(101.4)	8.86♥	(8.74♥)	10.1	(10)	2	Feb 20	1.25	3	2
Conrad	Yr to June 30	8.99	(5.2)	0.059L	(0.3721L♠)	0.06L	(0.38L)	-	-	-	-	-
Courts	6 mths to Sept 28★	160.4	(137.2)	9.56	(6.75♥)	24.26	(20.97)	2.6	Apr 11	2.1	-	7.5
Denby	Yr to Sept 30	33.1	(25.8)	6.06	(4.76)	12.2	(9.6)	2.7	Jan 15	2.3	4.05	3.45
Dewhurst	Yr to Sept 29	15.3	(15.3)	0.777	(1.58)	4.58	(9.29)	1.8	Mar 3	1.8	2.73	2.7
Expro Intl	6 mths to Sept 30	49.0	(37.3)	8.04	(6)	9.5	(7.5)	2.65	Jan 30	2.3	-	7
Formal	6 mths to Sept 30	6.69	(4.57)	1.72L♠	(0.45L)	13.18L†	(25L)	nil	-	nil	-	nil
Galaxy Media	18 mths to June 30☆	0.673	(-)	0.484L	(0.058)	16.8L†	(2.8)	nil	-	1	nil	2.5
Gibbon	6 mths to Sept 30	16.1	(14.4)	0.776	(1.3)	4.9	(7.8)	2.5	Feb 10	2.5	-	7
Gradus	Yr to Dec 31	-	(-)	-	(-)	-	(-)	4#	Jan 6	3.6	5.6	4.8
Grand Metropolitan	Yr to Sept 30	8,974	(8,025)	388♠	(920♥)	2.4	(28.8)	10.05	Apr 7	9.4	15.9	14.9
Greencore ‡	Yr to Sept 27	459	(436.9)	64.6♠	(47♥)	25.3†	(22.9)	4.5	Feb 17	3.85✦	6.6	5.9✦
GUS	6 mths to Sept 30	1,212	(1,203)	235.6	(237.5)	15.5	(15.7)	5.5	Mar 27	5	-	16.5
Hanson	Yr to Oct 1	12,484	(11,184)	1,808♥	(1,226♠)	27.3	(18.7)	3‡	Jan 10	3	12	12
Harris (Philip)	6 mths to Sept 30	68.9	(55.1)	1.7	(1.18)	10.26	(7.14)	3	Jan 23	2.45	-	8.2
Hornby	6 mths to Sept 30	13.1	(13.7)	1.16	(0.27)	10.9	(2.23)	2	Jan 30	-	-	5.5‡‡
Imperial Tobacco	Yr to Sept 28	3,820	(3,587)	365♠	(348)	-	(-)	-	-	-	-	-
IWP Intl ‡	6 mths to Sept 30	87.1	(74.5)	9.64	(8.75)	9.53	(8.23)	2.2	Jan 21	2✦	-	4.85✦
London Clubs	6 mths to Sept 22	94.3	(83.5)	19.1	(19.3)	8.9	(8.8)	2.625	Jan 31	2.5*	-	7.75*
Lovell (YJ)	Yr to Sept 30	254.3	(300.6)	11.8L♠	(32.4L♠)	32.6L	(84L)	nil	-	nil	nil	nil
MEPC	Yr to Sept 30	390.9☐	(373.3☐)	140.2	(122.8)	22.9	(21)	14.75	Feb 5	14.75	20	20
Norbain	Yr to Oct 31	45	(32)	2.02	(1.7)	12.49	(10.56)	3	Feb 3	2.5	-	5
NI Electricity	6 mths to Sept 30	236.2	(212.8)	52	(47.7)	28.7‡	(24.3)	5.5	Mar 27	5	-	19
Personal Number ϕ	6 mths to Sept 30	1.35	(1)	0.738L	(0.437L)	1462	(898)	nil	-	-	-	-
Plysu	6 mths to Sept 30	67.1	(63.3)	3.56♠	(3.1)	4.9	(4.3)	2	Feb 3	2	-	7.35
Ransomes	Yr to Sept 30	195.4	(180.2)	12.8♠	(9.22♠)	4.3†	(3.1)	0.75	Feb 3	nil	1.25	nil
Sheriff §	Yr to Sept 30	26.3	(22.7)	3.61	(4.46)	21.5	(30.3)	4.95	Feb 11	4.75	7.3	7
Syltone	6 mths to Sept 30	30.4	(25.7)	2.55	(1.75)	6.78	(5.92)	2	Feb 3	1.8	-	5.72
Tunstall	Yr to Sept 30	76.1	(80.7)	5.19	(9.59♥)	17.7	(21.1)	3.32	Feb 14	2.875	5	4.365

Investment Trusts		NAV (p)		Attributable Earnings (£m)		EPS (p)		Current payment (p)	Date of payment	Corresponding dividend	Total for year	Total last year
Brit Smaller VCT	6 mths to Sept 30	94.2	(-)	0.043	(-)	0.93	(-)	0.85	Dec 20	-	-	-
Edinburgh New Tiger	Yr to Oct 31★	27.43	(31.13)	1.38L	(1.4L)	0.49L	(0.5L)	nil	-	0.4	nil	0.4
Scudder Latin	6 mths to Oct 31	89.9	(72.41)	0.092	(0.185)	0.18	(0.37)	-	-	-	-	0.75
Turkey	Yr to Oct 31	246.98	(283.81)	0.474	(0.29)	4.8	(2.94)	3.6	Feb 21	2.2	3.6	2.2

Earnings shown basic. Dividends shown net. Figures in brackets are for corresponding period. ♠After exceptional charge. ♥After exceptional credit. †On increased capital. ★Comparatives restated. ☆Comparatives for 12 months to December 31 1994. #Second interim. ‡Irish currency. ‡Already paid. Distribution of 1p, payable January 10, declared for first quarter. ✦Adjusted for sub-division. ‡‡For 15 months. *Adjusted for scrip issue. ☐Gross rental income. ϕAim stock. §USM stock. ‡On reduced capital.

Ruud brand for Hay & Robertson

By Patrick Harverson

Ruud Gullit, the Chelsea player-manager and Dutch football star, is to have a range of leisure clothing and accessories named after him.

In what will be the first time a company has attempted to build a clothing brand around a football player, Hay & Robertson, the UK sports and leisure wear company, has signed a deal with Gullit to develop the range under the Admiral brand.

In a five-year deal, the 34-year-old will be paid an initial "six-figure" sum and receive a royalty on all worldwide sales of the clothing, which will be under a new "Ruud" sub-brand of Admiral. H&R is gambling on Gullit's public persona as a charismatic and cosmopolitan sports star.

It plans to launch the 40-item range of what it calls "urban streetwear" clothing next autumn to coincide with the start of the football season. Mr Lance Yates, chief executive of H&R, said the deal with Gullit was the first step in re-establishing Admiral.

The company recently acquired the European licensing rights to Admiral for £150,000.

London Clubs slips to £19.1m

By Scheherazade Daneshkhu

A shortage of high rolling gamblers at the Ritz casino in London largely wiped out a stronger performance from London Clubs International's middle and lower market casinos.

Pre-tax profits slipped from £19.3m to £19.1m ($31.3m) in the six months to September 22.

Mr Alan Goodenough, chief executive, said attendances at the Ritz – one of its most profitable casinos – rose by 5 per cent but "the club suffered from an unusually low win/drop percentage which depressed its profits".

The win/drop percentage – the amount retained by the casino as a proportion of customers' money exchanged for chips – is believed to have dropped at the Ritz from at least 20 per cent to the low teens. However, Mr Goodenough said the group's mix of business was better.

The Egyptian casinos traded strongly and the refurbished Casino du Liban, which opened this week in Beirut, was expected to make "a very useful contribution". Casino management contracts were being pursued in expanding markets overseas.

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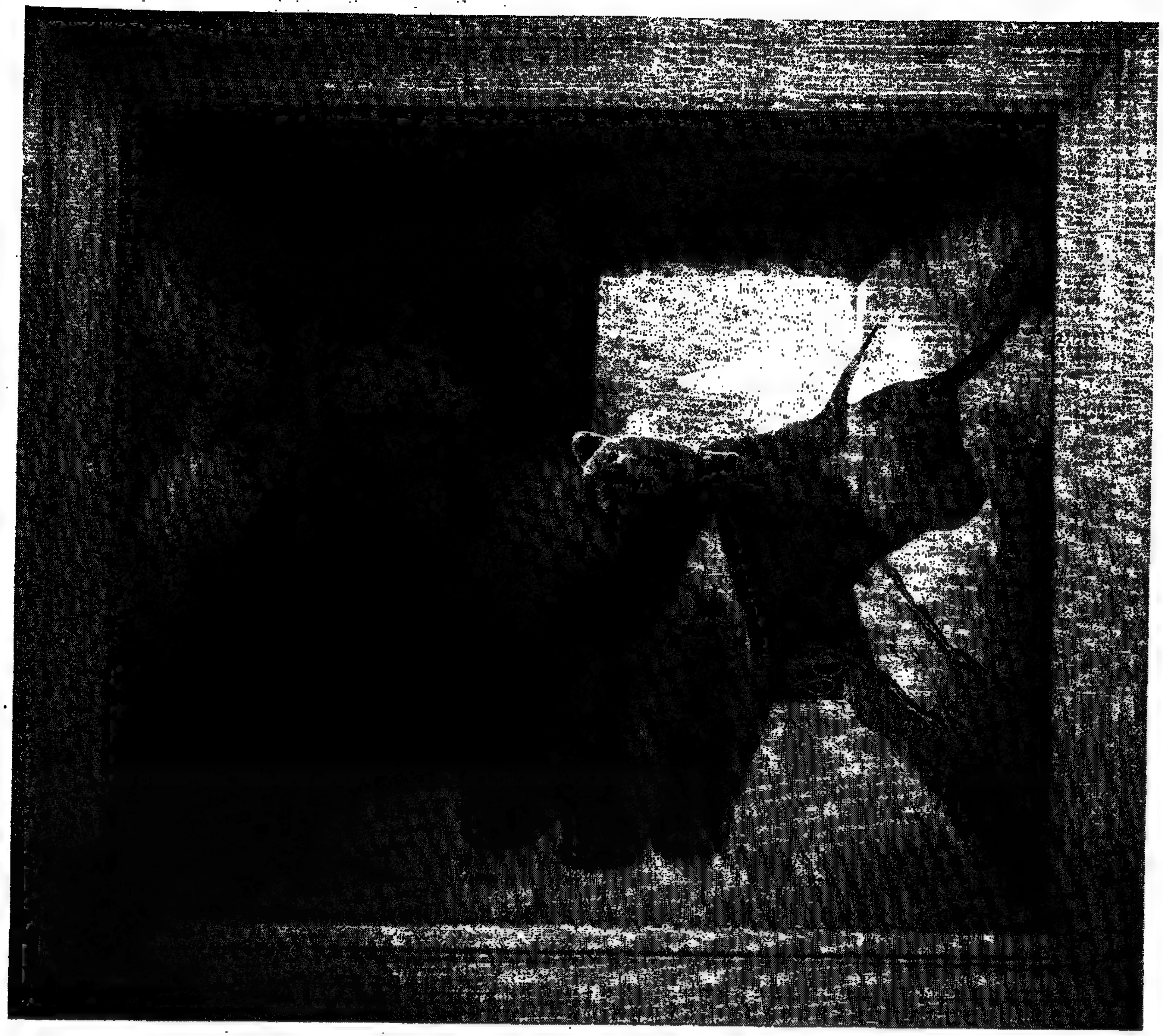

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INTERNATIONAL CAPITAL MARKETS

Treasuries in decline as dollar weakens

GOVERNMENT BONDS

By Lisa Bransten in New York and Samer Iskandar in London

US Treasury prices yesterday lost much of the gains made over the past six weeks in the face of a declining dollar and a spate of new corporate issuance.

Near midday, the benchmark 30-year Treasury was off a full point at 101⅞ to yield 6.469 per cent, a rise of 8 basis points from the levels of late Wednesday. At the short end of the maturity spectrum the two-year note was ⅛ weaker at 99¾, yielding 5.675 per cent. The March 30-year bond future gave up ⅞ at 114¾.

The yield curve that traces the difference between the two-year note and the long bond steepened 3 basis points to 79 on sharp selling at the long end of the curve.

Mr Richard Gilhooly, international bond strategist at Paribas Capital Markets in New York, attributed the widespread selling to the weakening dollar and to disappointment that the Federal Reserve had not yet carried out the purchases of Treasuries – known as "coupon passes" – that it traditionally makes near the end of the year. Coupon passes are generally undertaken by the Fed at year-end to meet seasonal demands for cash from the US banking system.

"Dealers had bought in anticipation of being able to sell to the Fed at slightly higher offer prices," said Mr Gilhooly. "It doesn't look like there is going to be a coupon pass so the bubble has been pricked."

Bonds started the day slightly stronger as the dollar rose against the yen, but fell with the US currency later in the session. By early afternoon, the dollar had fallen more than Y0.75 from late Wednesday, changing hands for Y112.32 compared with Y113.12.

The market was also worried that today's figures on November employment levels might show signs of wage inflation or point to a strengthening of the US economy.

Analysts yesterday dismissed a sharp fall in UK gilts as short-term profit taking, and remained bullish for the near future.

Gilt prices were propelled upwards in the morning by comments from Mr Eddie George, governor of the Bank of England, that a rise in the base rate was not urgently needed and that future rate rises would probably not be as sharp as the market seemed to anticipate.

Liffe's March 1997 long gilt future reached a high of 111$\frac{1}{16}$, before falling to close at 109¾, down ⅞.

Short-term rates benefited most from Mr George's remarks, Liffe's March short sterling future closing 0.10 higher at 93.38. "The market was expecting a rise of ¾ percentage point [in the base rate] before [next year's general] election," said Mr Kirit Shah, chief market strategist at Sanwa International. "Now it is only discounting a ¼ point rise."

In the cash market, the 10-year yield spread of gilts over bunds widened 9 basis points to 198 points. Mr Andrew Roberts, a gilt analyst at UBS in London said: "The spread is now near the high end of its medium-term range, making gilts relatively attractive."

He also said institutions were holding a lot of cash. "If it goes into gilts it could give us a year-end rally."

Mr Simon Briscoe, chief UK economist at Nikko Europe, agreed. "A severe squeeze in the weeks up to year-end can not be ruled out," he said. "Institutions are cash-rich and there is a stock shortage."

Other European markets fell in the wake of weaker bunds and Treasuries. Liffe's March bund future settled at 100.70, down 0.77, then fell in after-hours trading to a low of 100.42.

"The sell-off showed the market is no longer expecting a rate cut by the Bundesbank," Mr Shah said. "Last week's low of 5.55 per cent [on the yield of the 10-year bund] is the lowest we are likely to see this year." Yields on 10-year bund closed at 5.79 per cent, up 13 basis points.

CBOT links with brokers in OTC venture

By Laurie Morse in Chicago

The Chicago Board of Trade yesterday announced it was linking with two securities brokers to provide direct access for its members to the over-the-counter market in government securities.

It is believed to be the first attempt by a futures exchange and securities market dealers to bridge the gaps between their related businesses.

The CBOT – the world's busiest futures exchange – hopes the initiative will open the door to a new class of business. The deal, with New York-based Liberty Brokerage Investment Corp and the US subsidiary of UK-based broker Prebon Yamane, will offer a variety of other OTC instruments, as well as government securities. The joint venture will be called Chicago Board Brokerage.

The CBOT's largest institutional members already have access to the cash markets because they are primary dealers of Treasury debt. However, the new facility will open the inter-dealer markets to smaller players, and will reduce costs for all participants by unifying clearing and settlement functions for cash and futures dealing.

More than 80 per cent of CBOT volumes is related to futures and options contracts in US government debt. Although it plans next spring to link with the London International Financial Futures Exchange and the Tokyo Stock Exchange to list contracts in non-dollar-denominated long-term bonds, this diversification may not bring in large amounts of new business.

While the exchange has seen a rebound in volume this year – it traded 207m contracts to November, up 5.6 per cent on 1995 – a reduction in the size of the US government debt, and a commoditising of OTC derivatives transactions is forcing the CBOT to innovate.

The attempt to break into the insular world of cash bond dealing will eventually provide a platform for CBOT members to trade and clear swaps and other OTC derivatives transactions. Trading will be on an electronic system operated by CBB.

Liberty is one of the biggest inter-dealer brokers in cash government securities, while Prebon Yamani specialises in money markets, including federal funds, swaps, and other derivatives. The two broker-dealers have formed a partnership called Hudson Holdings to hold 41 per cent of CBB, while the CBOT will retain 51 per cent.

The third partner is the CBOT's clearing house, which has formed a subsidiary called the Clearing Corporation for Options and Securities. The clearing operation will be linked with the New York-based Government Securities Clearing Corporation and give CBB traders a means to centralise clearing, settlement, and cross-margining for all their bond, money market and futures trades.

The new venture is expected to begin operation by the middle of next year. "The alliance will greatly increase market efficiency by incorporating the advantages of OTC markets, exchange-traded markets and interactive electronic trade execution," said Mr Edwin Payne, Liberty Brokerage president.

Mixed reception for Spain's D-Mark issue

INTERNATIONAL BONDS

By Conner Middelmann

The eurobond market had another another hectic session yesterday, featuring several sovereign or government-backed issues.

Spain launched its large, long-expected D-Mark issue – DM2bn of 10-year bonds priced to yield 24 basis points over bunds – to mixed reviews.

Many dealers, especially in London, complained that the issue was too aggressively priced and too close to the year-end. "It's too big and too tight," said one dealer. He said a spread of 27 or 28 basis points would have been more appropriate. "Most investors aren't buying long-end D-Marks – they don't really believe in the rally."

Several market participants said the spread widened to about 28 after the bonds were freed to trade. However, lead manager Dresdner Kleinwort Benson insisted the spread had barely changed, although it admitted it bought back some bonds from other syndicate members.

Dresdner claimed it was better to have launched the deal now because in January DM30bn of new supply from the German government, federal states and eurobond issuers could hit the market.

Israel made a successful eurobond debut with $200m of five-year bonds priced at a spread of 50 basis points over Treasuries, which narrowed to 48 basis points during the session. Lead manager Merrill Lynch said about 75 per cent of the deal was placed in Europe, with the rest sold in Asia.

The lira sector saw its largest and longest-dated emerging markets issue to date – L600bn of 10-year bonds for Argentina. Chase, joint bookrunner with BCI, said the issue demand was heavily oversubscribed, causing the spread to narrow to 250 basis points from 276 at launch.

The lira sector also saw its largest asset-backed issue to date with L800bn of triple-A rated bonds backed by leasing contracts originated by San Paolo Leasint. According to Paribas, joint lead manager with San Paolo di Torino, the deal's structure – under which it pays all the principal at the final maturity – and the fact that the yield is higher than on comparable triple-A rated issues attracted investors.

Investors are keen buyers of lira bonds, owing to continued optimism about Italy's prospects of joining the core countries in the first wave of European monetary union. This demand spurred the launch of a L1,000bn, 30-year zero-coupon deal for Morgan Guaranty Trust, taken up largely by Italian retail investors.

Vodohospodarska Vystavba, the Slovak state-owned water utility, issued $200m of 10-year government-guaranteed bonds, the longest-dated debut issue yet from a central European borrower. The bonds, priced to yield 115 basis points over Treasuries, saw strong demand from US accounts and the spread narrowed to 111 basis points.

New international bond issues

Borrower	Amount m.	Coupon %	Price	Maturity	Fees %	Spread bp	Book-runner
US DOLLARS							
Morgan Stanley Group(a)‡	400	(a1)	99.79R	Dec 2001	0.25R	-	Morgan Stanley & Co Intl
Bank of Nova Scotia‡	300	(b)	99.951R	Dec 1999	0.125R	-	Morgan Stanley & Co Intl
Student Loan Mktg Assoc(c)	300	5.80#	100.00R	Dec 1998	0.125R	+16(5⅝%Nov98)	CSFB/Smith Barney
CC MCCT 2, 96-C, Cls A(d)‡	248	(d1)	(d1)	Dec 2003	-	-	Merrill Lynch/JP Morgan
SudwestLB Capital Mkts	250	5.75	[illegible]	Dec 1999	0.1875R	[illegible]	SBC Warburg
Vodohospodarska Vystavba	200	7.25#	99.691R	Dec 2006	1.00R	+115(6½%-06)	JP Morgan Securities
State of Israel	200	6.375	99.607R	Dec 2001	0.25R	+50(5⅝%Nov01)	Merrill Lynch Intl
Banco Bandeirantes(e)	100	(e1)	99.9746R	Dec 2004	0.875R	+425(5⅞%-99)	West Merchant Bank
D-MARKS							
Kingdom of Spain	2bn	5.75	98.835R	Jan 2007	0.325R	+24(6¼%Apr06)	Dresdner-KB
SWISS FRANCS							
Republic of Finland	150	3.25	101.75	Jan 2002	2.00	-	SBC Warburg
Dresdner Finance	125	4.125	102.75	Jan 2007	2.75	-	Dresdner/SBC Warburg
DSL Bank(f)	100	3.25	101.60	Jan 2002	2.00	-	Credit Suisse
GUILDERS							
De NIB	300	5.875	99.66R	Jan 2007	0.375R	+18.5§	ING Barings
ITALIAN LIRE							
SPLR No 1, Class A2000(g)‡	360bn	(g1,ǁ)	100.00R	Jan 2000	0.15R	-	Paribas/San Paolo
SPLR No 1, Class A2002(g)‡	305bn	(g2,ǁ)	100.00R	Jan 2002	0.1875R	-	Paribas/San Paolo
SPLR No 1, Class A2005(g)‡	135bn	(g3,ǁ)	99.97R	Jan 2005	0.25R	-	Paribas/San Paolo
Republic of Argentina	600bn	10.00	99.45R	Jan 2007	0.70R	+275(7½%-06)	Chase Manhattan Intl
Morgan Guaranty Trust Co	1000bn	zero	13.00	Jan 2027	2.00	-	Cariplo/JP Morgan Secs
ECUS							
Bayerische Hypo(h,ǁ)	200	5.00	99.674R	Jul 2001	0.275R	+15(5%-01)	Banque Paribas

Final terms, non-callable unless stated. Yield spread (over relevant government bond) at launch supplied by lead manager. ‡ Floating-rate note. #Semi-annual coupon. R: fixed re-offer price; fees shown at re-offer level. a) Callable from Dec 98 at par. a1) 3-mth Libor +15bp. b) 3-mth Libor -6¼bp. c) Callable on 18/12/97 at par. d) Chevy Chase Credit Card Master Trust. Legal maturity: May 07. d1) Priced later: 1-mth Libor +14-15bp. d2) Class B: 25.5m. e) Callable & puttable on 12/12/99 & 12/12/01 at par. e1) 10% to 12/12/99, then 10¼% to 12/12/01, then 10½%. f) SFr150m launched 8/11/96 was increased to SFr250m. g) San Paolo Leasint Receivables. g1) 3-mth Libor +5bp. g2) 3-mth Libor +8bp. g3) 3-mth Libor +16bp. h) Spread relates to French govt BTAN. § Over interpolated yield. ǁ Long 1st coupon.

WORLD BOND PRICES

BENCHMARK GOVERNMENT BONDS

		Coupon	Red Date	Price	Day's change	Yield	Week ago	Month ago
Australia		8.750	11/06	98.9060	-0.550	7.19	7.14	7.41
Austria		5.875	07/06	100.0600	-0.610	5.86	5.89	6.08
Belgium		7.000	05/06	108.0500	-0.620	5.88	5.90	6.10
Canada *		7.000	12/06	102.7000	-4.230	6.63	6.07	6.54
Denmark		8.000	03/06	109.3800	-0.400	6.61	6.71	6.88
France	BTAN	5.500	10/01	100.0060	-	4.64	4.76	4.95
	OAT	6.500	10/06	105.6300	-0.810	5.74	5.74	5.97
Germany Bund		6.250	04/06	103.2000	-0.970	5.79	5.75	6.01
Ireland		8.000	08/06	109.0000	-1.200	6.70	6.81	6.90
Italy		9.500	02/06	113.9000	+0.260	7.38†	7.62	8.07
Japan	No 140	6.600	06/01	122.3399	+0.100	1.37	1.44	1.62
	No 182	3.000	09/05	104.8113	+0.080	2.34	2.42	2.65
Netherlands		8.500	06/06	119.5900	-0.890	5.78	5.72	5.91
Portugal		9.500	02/06	116.5000	-0.720	6.99	7.01	7.54
Spain		8.800	04/06	111.3500	-0.930	7.06	7.11	7.69
Sweden		6.000	02/05	[illegible]	-0.420	6.77	6.93	7.17
UK Gilts		8.000	12/00	102-16	-25/32	7.27	7.01	6.89
		7.500	12/06	99-24	-26/32	7.53	7.44	7.51
		9.000	10/08	110-26	-28/32	7.61	7.54	7.63
US Treasury *		6.500	10/06	102-07	-29/32	6.20	6.12	6.53
		6.500	11/26	100-10	-45/32	6.48	6.43	6.81
ECU (French Govt)		7.000	04/06	106.4400	-0.430	6.07	6.16	6.34

London closing, *New York mid-day. Yields: Local market standard.
† Gross (including withholding tax at 12.5 per cent payable by nonresidents)
Prices: US, UK in 32nds, others in decimal. Source: MMS International

US INTEREST RATES

Latest		Treasury Bills and Bond Yields			
		One month	-	Two year	5.84
Prime rate	8¼	Two month	-	Three year	5.73
Broker loan rate	7	Three month	5.02	Five year	5.89
Fed.funds	5⅜	Six month	5.18	10-year	6.10
Fed.funds at intervention	-	One year	5.36	30-year	6.40

BOND FUTURES AND OPTIONS

France

■ NOTIONAL FRENCH BOND FUTURES (MATIF) FFr500,000

	Open	Sett price	Change	High	Low	Est. vol.	Open int.
Dec	129.42	129.22	-0.32	129.78	129.14	186,521	132,283
Mar	129.42	129.26	-0.32	129.80	129.18	26,912	94,012
Jun	128.26	128.10	-0.32	128.60	128.18	104	8,434

■ LONG TERM FRENCH BOND OPTIONS (MATIF)

Strike Price	Calls Jan	Calls Feb	Calls Mar	Puts Jan	Puts Feb	Puts Mar
126	-	-	-	-	0.16	0.28
127	2.33	-	2.70	0.06	-	0.45
128	1.44	-	1.96	0.19	0.48	0.73
129	0.72	1.11	1.34	0.45	0.83	-
130	0.27	0.63	0.84	1.00	-	-

Est. vol. total, Calls 20,528 Puts 19,023. Previous day's open int., Calls 128,274 Puts 129,988.

Germany

■ NOTIONAL GERMAN BUND FUTURES (LIFFE)* DM250,000 100ths of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Dec	102.24	102.53	+0.23	102.53	102.17	24911	21414
Mar	101.38	100.70	-0.77	101.70	100.32	260637	241866

■ BUND FUTURES OPTIONS (LIFFE) DM250,000 points of 100%

Strike Price	Calls Jan	Calls Feb	Calls Mar	Calls Jun	Puts Jan	Puts Feb	Puts Mar	Puts Jun
10050	0.59	0.94	1.15	1.15	0.39	0.74	0.95	1.35
10100	0.34	0.66	0.89	0.96	0.64	0.96	1.19	2.16
10150	0.16	0.46	0.67	0.78	0.98	1.26	1.47	2.45

Est. vol. total, Calls 21417 Puts 10720. Previous day's open int., Calls 151305 Puts 132065

Italy

■ NOTIONAL ITALIAN GOVT. BOND (BTP) FUTURES (LIFFE)* Lira 200m 100ths of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Mar	128.65	128.61	-0.08	129.37	127.85	61046	87117
Jun		128.21	-0.08			0	355

■ ITALIAN GOVT. BOND (BTP) FUTURES OPTIONS (LIFFE) Lira200m 100ths of 100%

Strike Price	Calls Mar	Calls Jun	Puts Mar	Puts Jun
12850	1.90	2.61	1.79	2.90
12900	1.66	2.38	2.05	3.17
12950	1.45	2.16	2.34	3.45

Est. vol. total, Calls 4615 Puts 4222. Previous day's open int., Calls 91318 Puts 62628

Spain

■ NOTIONAL SPANISH BOND FUTURES (MEFF)

	Open	Sett price	Change	High	Low	Est. vol.	Open int.
Dec	111.85	112.08	-0.71	112.42	111.37	90,428	58,530
Mar	111.35	111.61	-0.67	111.90	110.94	8,725	10,303

UK

■ NOTIONAL UK GILT FUTURES (LIFFE)* £50,000 32nds of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Dec	111-03	110-13	-0-27	111-20	110-09	13438	21765
Mar	110-16	109-24	-0-27	111-02	109-08	91087	198648

■ LONG GILT FUTURES OPTIONS (LIFFE) £50,000 64ths of 100%

Strike Price	Calls Jan	Calls Feb	Calls Mar	Calls Jun	Puts Jan	Puts Feb	Puts Mar	Puts Jun
109	1-08	1-38	1-61	2-27	0-24	0-55	1-13	2-23
110	0-35	1-03	1-26	1-62	0-51	1-19	1-42	2-58
111	0-14	0-41	0-63	1-36	1-30	1-57	2-15	3-32

Est. vol. total, Calls 8820 Puts 1533. Previous day's open int., Calls 30084 Puts 23827

Ecu

■ ECU BOND FUTURES (MATIF) ECU100,000

	Open	Sett price	Change	High	Low	Est. vol.	Open int.
Dec	96.50	96.16	-0.38	96.70	95.98	2,146	6,958
Mar	96.28	95.74	-0.36	96.28	95.70	1,105	1,440

US

■ US TREASURY BOND FUTURES (CBT) $100,000 32nds of 100%

	Open	Latest	Change	High	Low	Est. vol.	Open int.
Dec	115-25	115-14	-0-08	116-01	115-05	20,997	163,359
Mar	115-12	115-02	-0-09	115-21	114-26	[illegible]	297,972
Jun	114-26	114-19	-0-08	114-26	114-12	461	13,668

Japan

■ NOTIONAL LONG TERM JAPANESE GOVT. BOND FUTURES (LIFFE) Y100m 100ths of 100%

	Open	Close	Change	High	Low	Est. vol	Open int.
Dec	126.81			126.86	126.59	494	na
Mar	126.36			126.46	126.16	2070	na

* LIFFE futures also traded on APT. All Open interest figs. are for previous day.

FTSE Actuaries Govt. Securities

Price Indices UK Gilts	Wed Dec 4	Day's change %	Tue Dec 3	Accrued interest	xd adj. ytd
1 Up to 5 years (21)	120.70	-0.21	120.95	2.00	9.44
2 5-15 years (18)	149.51	-0.51	150.28	1.72	11.66
3 Over 15 years (7)	171.14	-0.70	172.35	2.99	11.53
4 Irredeemables (6)	195.97	-1.05	198.05	1.39	13.47
5 All stocks (52)	144.40	-0.44	145.04	2.10	10.93
Index-linked					
6 Up to 5 years (2)	203.52	-0.11	203.75	1.04	5.26
7 Over 5 years (10)	197.11	-0.33	197.76	1.41	4.71
8 All stocks (12)	196.72	-0.30	197.32	1.37	4.69

UK Indices

	Low coupon yield Dec 4	Dec 3	Yr. ago	Medium coupon yield Dec 4	Dec 3	Yr. ago	High coupon yield Dec 4	Dec 3	Yr. ago
5 yrs	7.17	7.08	6.86	7.21	7.11	[illegible]	7.27	7.16	7.02
15 yrs	7.58	7.50	7.06	7.55	7.47	7.71	7.47	7.45	7.78
20 yrs	7.65	7.56	7.74	7.58	7.50	7.77	7.48	7.47	7.82
Irred.†	7.68	7.60	7.84						

	Inflation 5% Dec 4	Dec 3	Yr. ago	Inflation 10% Dec 4	Dec 3	Yr. ago
Up to 5 yrs	3.13	3.09	2.73	2.47	2.43	1.69
Over 5 yrs	3.47	3.44	3.51	3.27	3.24	3.31

Average gross redemption yields are shown above. Coupon Bands: Low: 0%-7¾%; Medium: 8%-10¾%; High: 11% and over. † Flat yield. ytd Year to date. PLEASE NOTE: Due to a technical problem, figures were unavailable for 5/12/96. Fax FTSE International for details on 0171 448 1834.

FT Fixed Interest Indices

	Dec 5	Dec 4	Dec 3	Dec 2	Nov 29	Yr ago	High*	Low*
Govt. Secs. (UK)	95.11	95.41	95.48	95.88	94.90	96.03	96.34	91.59
Fixed Interest	117.61	117.62	117.70	117.38	117.15	114.81	117.82	110.74

 * for 1996. Government Securities high since compilation: 127.4 (09/01/35), low 49.18 (03/01/75). Fixed Interest high since compilation: 133.87 (21/01/94), low 50.53 (03/01/75). Basis 100: Government Securities 15/10/26 and Fixed Interest 1928. SE activity indices rebased 1974.

Gilt Edged Activity Indices

	Dec 4	Dec 3	Dec 2	Nov 29	Nov 28
Gilt Edged bargains	93.0	92.5	76.5	101.8	90.8
5-day average	91.3	93.1	95.2	102.4	100.6

FT/ISMA INTERNATIONAL BOND SERVICE

Listed are the latest international bonds for which there is an adequate secondary market. Latest prices at 7:10 pm on December 5

	Issued	Bid	Offer	Chg	Yield
U.S. DOLLAR STRAIGHTS					
Abbey Natl Treasury 6½ 00	1000	101¼	101⅝	-½	6.27
ABN Amro Bank 7¼ 05	1000	103⅝	103⅞	-¼	6.63
African Dev Bk 7⅜ 23	500	103	103⅝	-¼	7.11
Alberta Province 7¾ 98	1000	103	103¼	-⅛	5.91
Asian Dev Bank 6¼ 05	750	99⅛	99⅝	-¼	6.48
Austria 8½ 00	400	106¾	107	-¼	6.06
Baden-Wuertt L-Fin 8⅛ 00	1000	105¾	105⅞	-¼	6.05
Bancomext 7¼ 04	1000	87¾	88¼	-½	9.49
Bank Ned Gemeenten 7 99	1000	102⅝	102⅞	-¼	5.91
Bayer Vereinsbk 8⅛ 00	500	105⅝	105⅞	-⅛	6.09
Belgium 5½ 03	1000	95⅛	95¼	-½	6.20
British Columbia 7¾ 02	500	106⅞	107	-½	6.28
British Gas 0 21	1500	18⅝	18⅝	-⅛	7.47
[illegible]					
Spain 7¼ 03	4000	109⅝	109¾	-¼	5.39
Volkswagen Intl Fin 7 03	1000	107	107¼	-½	5.87
World Bank 5⅞ 03	3000	103	103⅛	-⅛	5.34
World Bank 6⅜ 02	3000	105⅛	105¼	-½	5.08
World Bank 7⅛ 05	3000	108⅝	108½	-¼	5.62
SWISS FRANC STRAIGHTS					
Asian Dev Bank 0 16	500	[illegible]			
Austria 4½ 00	1000	[illegible]			
Council Europe 4¼ 98	250	[illegible]			
Denmark 4¼ 99	1000	[illegible]			
EIB 3¾ 99	1000	[illegible]			
EIB 6¾ 04	300	[illegible]			
Finland 7¼ 99	300	[illegible]			
[illegible]					
Abbey Natl Treasury 8 03 £	1000	101¼	101⅜	-⅛	7.73
British Land 8⅞ 23 £	150	97⅛	97⅜	-⅛	8.37
Denmark 6¾ 98 £	800	99⅝	99¾		6.96
Depfa Finance 7⅛ 03 £	500	98⅝	98⅞	-½	7.77
EIB 8 03 £	1000	102⅞	102⅝	-⅛	7.51
Glaxo Wellcome 8¾ 05 £	500	104½	104⅝	-¼	8.03
[illegible]					

STRAIGHT BONDS: The yield is the yield to redemption of the bid-price; the amount issued is in millions of currency units. Chg. day=Change on day. FLOATING RATE NOTES: Denominated in dollars unless otherwise indicated. Coupon shown is minimum. Spread=Margin above six-month offered rate. CONVERTIBLE BONDS: Denominated in dollars unless otherwise indicated. Cnv. price=Nominal amount of bond per share expressed in currency of share at conversion rate fixed at issue. Prem=Percentage premium of the current effective price of acquiring shares via the bond over the most recent price of the shares.

UK GILTS PRICES

	Notes	Yield Int	Yield Red	Price £	+ or -	52 week High	52 week Low
Shorts" (Lives up to Five Years)							
Treas 13¼pc 1997‡‡		13.14	6.39	100⅞	—	107⅞	100½
Exch 10½pc 1997		10.41	6.20	100⅞	-⅛	107⅞	100⅞
Treas Cnv 7pc 1997‡‡		6.97	6.40	100⅛	—	101⅞	100⅞
Treas 8¾pc 1997‡‡		8.61	6.43	101⅝	—	107⅞	101⅝
Exch 15pc 1997		13.99	6.54	107¼	+⅛	115⅞	102⅞
Exch 9¾pc 1998		9.44	6.58	103⅞	+⅛	106⅞	100⅞
Treas 7¼pc 1998‡‡		7.19	6.66	100⅞	+⅛	109⅞	100⅞
[illegible]							
Treas 7½pc 2006‡‡		7.53	7.53	99⅞xd	-⅞	101⅞	94⅞
Treas 7¾pc 2006‡‡		7.65	7.55	101¼	-⅞	103¼	96⅞
Treas 8pc 2002-6‡‡		7.81	7.46	102⅞	-⅛	104⅞	97⅞
Treas 11¾pc 2003-7		9.71	7.44	121⅛	-⅞	125⅞	118⅞
Treas 8½pc 2007 ‡‡		7.97	7.56	106⅞	-⅞	108⅞	101⅞
Treas 9pc 2008 ‡‡		8.13	7.60	110⅞	[illegible]	112⅞	103⅞
Treas 8pc 2009		7.69	7.64	104⅞	+⅞	104⅞	96⅞
[illegible]							

Index-Linked (b)	Notes	Yield (1)	Yield (2)	Price £	+ or -	52 week High	52 week Low
4⅝pc '98‡‡	(135.6)	0.48	2.37	113⅞	-⅛	114⅞	111⅞
2½pc '01	(78.3)	2.65	3.23	185⅞	-⅛	185⅞	176¾
2½pc '03	(78.8)	2.88	3.30	181⅞	-⅞	182⅞	171⅞
4⅝pc '04‡‡	(135.6)	2.94	3.32	118⅞	-¼	119	112⅞
2pc '06	(69.5)	3.08	3.37	191⅞	-½	192⅞	179⅞
2½pc '09	(78.8)	3.19	3.43	172⅞	-⅞	173⅞	161⅞
2½pc '11	(74.6)	3.28	3.46	178⅞	-⅞	179⅞	168⅞
2½pc '13	(89.2)	3.31	3.50	148⅞	-⅞	148	138⅞
[illegible]							

Other Fixed Interest: [illegible]

● "Tap" stock. ‡‡ Tax-free to non-residents on application. E Auction basis. xd Ex dividend. Closing mid-prices are shown in pounds per £100 nominal of stock. Prospective real redemption rate on projected inflation of (1) 10% and (2) 5%. (b) Figures in parentheses show RPI base for indexing. Prospective real Index-Linked redemption yields are calculated by HSBC Greenwell from Bank of England closing prices.

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CURRENCIES AND MONEY

Sterling sinks for third consecutive day

MARKETS REPORT

By Simon Kuper

The pound sank on the currency markets for the third day running, hit by profit taking and a comment by Mr Eddie George, governor of the Bank of England, that he saw no need for a dramatic UK rate rise.

Sterling lost 3.1 pfennigs against the D-Mark to close in London at DM2.530, 11 pfennigs below the peak it reached in Asian trading early on Tuesday morning.

The dollar had a roller-coaster ride against the yen. It ended the day Y0.6 down against the Japanese currency at Y112.5, mainly because Mr Eisuke Sakakibara, director general of the Japanese finance ministry's international finance bureau, had questioned whether the US supported a rise in the dollar.

Asked about comments by Mr Robert Rubin, US treasury secretary, that the strong dollar was in American interests, Mr Sakakibara said: "It's a strong dollar, not a *stronger* dollar." Foreign exchange traders call Mr Sakakibara "Mr Yen" in tribute to his power to move the currency.

Earlier, the dollar had recovered against the yen after Mr Sakakibara had denied overnight rumours that he sought a rate of Y108-110 for the yen against the dollar. "We don't have a target zone. We are not thinking of guiding the foreign exchange rate to a certain zone," he said.

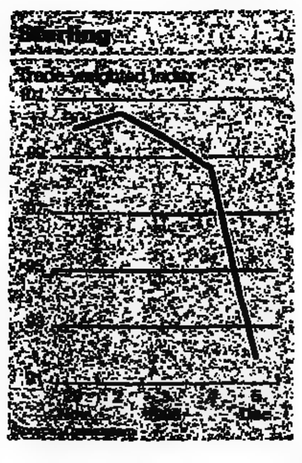
The dollar, which had soared on Tuesday, was also hit by sales of US Treasury bonds yesterday. It dropped 0.9 pfennigs against the D-Mark to DM1.554, despite poor German unemployment data. That still left it above the DM1.50-1.55 zone in which it had traded for weeks.

The Bundesbank council meeting left German interest rates unchanged, as expected. That diminished hopes that Germany might meet French demands to boost the dollar by means of looser monetary policy.

But trading was thin ahead of Christmas and today's US non-farm payroll figures.

■ The main reason why sterling fell yesterday was that traders wanted to take their profits on the currency's rise before the end of the year, said foreign exchange strategists.

Mr Tony Norfield, treasury economist at ABN Amro in London, said: "We're seeing another leg of selling everything in sight that you've made any money out of in the past few months." He pointed out that the lira, which like sterling had risen for much of the year, also fell yesterday, closing L3.4 down at L986.2 to the D-Mark.



Mr George's comments on interest rates did have some impact, however. He told the House of Commons treasury select committee: "We don't see an urgent need for a dramatic step." When asked if he foresaw no rate hikes before the general election, due by May, he replied: "I certainly wouldn't go that far."

Strategists took his remarks to suggest that the Bank would not plead with Mr Kenneth Clarke, the chancellor, to raise base rates at next Wednesday's monetary policy meeting. Few City economists had expected a rate hike in any case. But many currency economists had, and short sterling futures, even allowing for their rise yesterday, still price in a rate increase. Sterling's autumn surge has been mainly due to market expectations of UK rate hikes.

■ Mr Sakakibara said yesterday that authorities should not try to fight the currency markets when exchange rates mirrored economic fundamentals. "We must respect the markets," he said. "The moves in the foreign exchange market this past year follow fundamentals."

However, most currency strategists believe that despite his protests, he is targeting an exchange rate for dollar/yen. Directly after the US election last month he appeared to talk up the yen, and his comments about Mr Rubin yesterday had the same effect. On both occasions the yen was weaker than Y113 when he made his comments. But Mr Sakakibara followed last month's pro-yen statement with dampening remarks. Foreign exchange strategists said this was because he feared the currency rising too far.

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■ Pound in New York

Dec 5	—Latest—	— Prev. close —
£ spot	1.6275	1.6435
1 mth	1.6268	1.6426
3 mth	1.6242	1.6352
1 yr	1.6098	1.6237

■ OTHER CURRENCIES

Dec 5	£	$
Czech Kr	44.5986 - 44.7287	27.3820 - 27.4120
Hungary	260.483 - 260.724	160.100 - 160.150
Iran	4824.00 - 4881.00	3000.00 - 3000.00
Kuwait	0.4876 - 0.4887	0.2997 - 0.3002
Poland	4.6921 - 4.6958	2.8830 - 2.8850
Russia	8995.92 - 9000.07	5530.00 - 5534.00
U.A.E.	5.9758 - 5.9798	3.6729 - 3.6731

POUND SPOT FORWARD AGAINST THE POUND

Dec 5		Closing mid-point	Change on day	Bid/offer spread	Day's Mid high	Day's Mid low	One month Rate	One month %PA	Three months Rate	Three months %PA	One year Rate	One year %PA	Bank of Eng. Index
Europe													
Austria	(Sch)	17.8022	-0.2136	934 - 110	18.1242	17.6930	17.7587	2.9	17.7092	2.2	-	-	104.3
Belgium	(BFr)	52.1573	-0.6147	128 - 018	53.0170	51.8400	52.0323	2.9	51.7673	3.0	50.5728	3.0	105.2
Denmark	(DKr)	9.6926	-0.1066	880 - 972	9.8412	9.6325	9.6727	2.5	9.6321	2.5	9.4532	2.5	106.8
Finland	(FM)	7.5687	-0.0769	623 - 751	7.7020	7.5190	-	-	-	-	-	-	84.5
France	(FFr)	8.5480	-0.0985	437 - 522	8.6839	8.4973	8.5275	2.9	8.4556	2.9	8.2506	3.1	107.9
Germany	(DM)	2.5302	-0.0303	290 - 314	2.5706	2.5145	2.5237	3.1	2.5104	3.1	2.4469	3.3	107.0
Greece	(Dr)	398.331	-3.683	062 - 600	403.885	395.378	-	-	-	-	-	-	67.0
Ireland	(I£)	0.9954	-0.0028	945 - 963	0.9997	0.9937	0.9951	0.4	0.9941	0.5	0.9875	0.8	101.6
Italy	(L)	2495.12	-22.11	338 - 686	2527.27	2472.92	2498.92	-1.8	2506.42	-1.8	2510.92	-0.6	77.9
Luxembourg	(LFr)	52.1573	-0.6147	128 - 018	53.0170	51.8400	52.0323	2.9	51.7673	3.0	50.5728	3.0	105.2
Netherlands	(Fl)	2.8361	-0.0338	365 - 396	2.8831	2.8199	2.8303	3.3	2.8148	3.3	2.7413	3.4	105.3
Norway	(NKr)	10.5865	-0.0932	802 - 927	10.7343	10.5056	10.574	1.4	10.554	1.2	10.449	1.3	99.5
Portugal	(Es)	255.648	-2.894	488 - 808	259.199	253.815	255.845	-0.9	256.213	-0.9	-	-	95.3
Spain	(Pta)	212.739	-2.748	649 - 828	216.185	211.588	212.904	-0.9	213.134	-0.7	213.134	-0.2	79.5
Sweden	(SKr)	11.0860	-0.0501	760 - 959	11.1906	10.9654	11.0848	0.1	11.0822	0.1	11.0698	0.1	89.5
Switzerland	(SFr)	2.1441	-0.0235	426 - 455	2.1767	2.1224	2.1361	4.5	2.1206	4.3	2.0494	4.4	106.4
UK	(£)	-	-	-	-	-	-	-	-	-	-	-	91.6
Ecu	-	1.3115	-0.0126	109 - 122	1.3295	1.3032	1.3096	1.8	1.3062	1.9	1.2837	2.1	-
SDR†	-	1.150205	-	-	-	-	-	-	-	-	-	-	-
Americas													
Argentina	(Peso)	1.6273	-0.0109	267 - 278	1.6475	1.6101	-	-	-	-	-	-	-
Brazil	(R$)	1.6840	-0.0094	831 - 848	1.7030	1.6648	-	-	-	-	-	-	-
Canada	(C$)	2.2116	-0.0016	104 - 128	2.2322	2.1840	2.2084	2.8	2.1958	2.9	2.1366	3.4	86.0
Mexico	(New Peso)	12.6369	-0.0458	289 - 449	12.9716	12.7059	-	-	-	-	-	-	-
USA	($)	1.6275	-0.011	270 - 280	1.6479	1.6103	1.6267	0.6	1.624	0.8	1.6077	1.2	98.0
Pacific/Middle East/Africa													
Australia	(A$)	2.0386	-0.0108	371 - 398	2.0701	2.0205	2.0398	-0.8	2.0405	-0.4	2.0401	-0.1	95.0
Hong Kong	(HK$)	12.5839	-0.0871	792 - 885	12.7418	12.4513	12.5766	0.7	12.5627	0.7	12.4962	0.7	-
India	(Rs)	58.2727	-0.3966	978 - 475	59.0370	57.6460	-	-	-	-	-	-	-
Israel	(Shk)	5.3290	-0.06	222 - 358	5.4135	5.2758	-	-	-	-	-	-	-
Japan	(Y)	183.159	-2.27	038 - 280	185.900	181.470	182.229	6.1	180.374	6.1	171.959	6.1	130.3
Malaysia	(M$)	4.1029	-0.029	012 - 045	4.1536	4.0662	-	-	-	-	-	-	-
New Zealand	(NZ$)	2.3135	+0.0158	114 - 155	2.3414	2.2825	2.3202	-3.5	2.3296	-2.8	2.3504	-1.6	111.4
Philippines	(Peso)	42.7952	-0.2892	088 - 815	42.8815	42.7088	-	-	-	-	-	-	-
Saudi Arabia	(SR)	6.1040	-0.0412	019 - 060	6.1792	6.0396	-	-	-	-	-	-	-
Singapore	(S$)	2.2810	-0.0174	794 - 825	2.3109	2.2584	-	-	-	-	-	-	-
South Africa	(R)	7.6004	-0.049	940 - 068	7.7059	7.5371	-	-	-	-	-	-	-
South Korea	(Won)	1361.72	-9.46	122 - 222	1368.39	1337.52	-	-	-	-	-	-	-
Taiwan	(T$)	44.7369	-0.3025	100 - 098	45.2925	44.2720	-	-	-	-	-	-	-
Thailand	(Bt)	41.6071	-0.2865	780 - 361	42.0990	41.1540	-	-	-	-	-	-	-

† Rates for Dec 4. Bid/offer spreads in the Pound Spot table show only the last three decimal places. Forward rates are not directly quoted to the market but are implied by current interest rates. Sterling index calculated by the Bank of England. Base average 1990 = 100. Index rebased 1/2/95. Bid, Offer and Mid-rates in both this and the Dollar Spot tables derived from THE WM/REUTERS CLOSING SPOT RATES. Some values are rounded by the F.T.

DOLLAR SPOT FORWARD AGAINST THE DOLLAR

Dec 5		Closing mid-point	Change on day	Bid/offer spread	Day's mid high	Day's mid low	One month Rate	One month %PA	Three months Rate	Three months %PA	One year Rate	One year %PA	J.P. Morgan Index
Europe													
Austria	(Sch)	10.9384	-0.0569	363 - 404	11.0010	10.9240	10.9237	1.6	10.8784	2.2	10.6934	2.3	104.0
Belgium	(BFr)	32.0475	-0.16	300 - 650	32.2250	32.0100	31.9875	2.2	31.86	2.3	31.32	2.3	104.8
Denmark	(DKr)	5.9555	-0.0251	545 - 565	5.9812	5.9482	5.9468	1.8	5.9292	1.8	5.8465	1.8	106.0
Finland	(FM)	4.6505	-0.0157	480 - 530	4.6801	4.6365	4.6417	2.3	4.623	2.4	4.5405	2.4	83.7
France	(FFr)	5.2522	-0.0249	512 - 532	5.2787	5.2457	5.2439	1.9	5.2259	2.0	5.1502	1.9	107.3
Germany	(DM)	1.5547	-0.008	544 - 549	1.5635	1.5527	1.5518	2.2	1.5458	2.3	1.5211	2.2	106.3
Greece	(Dr)	244.750	-0.605	660 - 840	245.610	244.150	246.305	-7.0	249.675	-8.7	259.9	-6.2	66.7
Ireland	(I£)	1.6350	-0.0065	340 - 360	1.6540	1.6175	1.6346	0.3	1.6342	0.2	1.6315	0.2	-
Italy	(L)	1533.10	-3.2	250 - 370	1537.00	1527.65	1536.27	-2.5	1542.7	-2.5	1555.75	-1.5	77.8
Luxembourg	(LFr)	32.0475	-0.16	300 - 650	32.2250	32.0100	31.9675	2.2	31.86	2.3	31.32	2.3	104.8
Netherlands	(Fl)	1.7438	-0.009	434 - 442	1.7537	1.7419	1.74	2.6	1.732	2.7	1.6965	2.7	104.7
Norway	(NKr)	6.5048	-0.0132	029 - 066	6.5585	6.4910	6.5011	0.7	6.4954	0.6	6.4698	0.5	98.7
Portugal	(Es)	157.080	-0.59	030 - 130	157.670	156.850	157.285	-1.6	157.58	-1.3	158.355	-0.8	95.4
Spain	(Pta)	130.715	-0.8	700 - 730	131.480	130.650	130.895	-1.7	131.155	-1.3	131.82	-0.8	78.1
Sweden	(SKr)	6.8117	+0.0152	070 - 165	6.8328	6.7615	6.8089	0.5	6.7991	0.7	6.7517	0.9	86.5
Switzerland	(SFr)	1.3174	-0.0055	169 - 179	1.3220	1.3125	1.3135	3.5	1.3057	3.5	1.2729	3.4	105.3
UK	(£)	1.6275	-0.011	270 - 280	1.6478	1.6103	1.6267	0.6	1.624	0.8	1.6077	1.2	92.5
Ecu	-	1.2410	+0.0087	407 - 412	1.2490	1.2385	1.2424	-1.3	1.2465	-1.4	1.2621	-1.7	-
SDR†	-	0.695169	-	-	-	-	-	-	-	-	-	-	-
Americas													
Argentina	(Peso)	0.9999	+0.0001	998 - 999	0.9999	0.9998	-	-	-	-	-	-	-
Brazil	(R$)	1.0347	+0.0012	345 - 349	1.0349	1.0337	-	-	-	-	-	-	-
Canada	(C$)	1.3589	+0.0061	586 - 592	1.3598	1.3538	1.3585	2.1	1.3515	2.2	1.324	2.6	84.9
Mexico	(New Peso)	7.8875	+0.025	850 - 900	7.8900	7.8650	8.0065	-18.0	8.272	-19.5	9.1325	-15.8	-
USA	($)	-	-	-	-	-	-	-	-	-	-	-	98.9
Pacific/Middle East/Africa													
Australia	(A$)	1.2525	+0.0018	520 - 530	1.2547	1.2520	1.254	-1.4	1.2559	-1.1	1.2614	-0.7	97.0
Hong Kong	(HK$)	7.7320	-0.0013	315 - 325	7.7329	7.7315	7.7319	0.0	7.7325	0.0	7.7436	-0.1	-
India	(Rs)	35.8050	-	700 - 400	35.8550	35.7700	36.02	-7.2	36.48	-7.5	-	-	-
Israel	(Shk)	3.2744	-0.0148	712 - 775	3.2891	3.2671	-	-	-	-	-	-	-
Japan	(Y)	112.540	-0.65	500 - 580	113.300	112.400	112.065	5.1	111.08	5.3	106.86	5.0	130.3
Malaysia	(M$)	2.5210	-0.0008	207 - 212	2.5250	2.5185	2.5238	-1.4	2.5292	-1.3	2.5505	-1.2	-
New Zealand	(NZ$)	1.4215	+0.0191	207 - 223	1.4223	1.4207	1.427	-4.6	1.4313	-2.8	1.4628	-2.9	-
Philippines	(Peso)	26.2950	-	500 - 400	26.3400	26.2500	-	-	-	-	-	-	-
Saudi Arabia	(SR)	3.7505	-	504 - 506	3.7506	3.7504	3.7508	-0.1	3.7512	-0.1	3.7551	-0.1	-
Singapore	(S$)	1.4015	-0.0013	010 - 020	1.4025	1.4010	1.3993	1.8	1.3947	1.9	1.3735	2.0	-
South Africa	(R)	4.6700	+0.0015	675 - 725	4.6850	4.6650	4.7107	-10.5	4.7857	-9.9	5.1005	-9.2	-
South Korea	(Won)	830.550	-0.2	500 - 600	830.700	830.300	-	-	-	-	-	-	-
Taiwan	(T$)	27.5000	-	800 - 200	27.5250	27.4800	27.5001	0.0	27.5003	0.0	-	-	-
Thailand	(Bt)	25.5650	-0.0045	530 - 780	25.5750	25.5450	25.655	-4.2	25.8225	-4.0	26.46	-3.5	-

† SDR rate per $ for Dec 4. Bid/offer spreads in the Dollar Spot table show only the last three decimal places. Forward rates are not directly quoted to the market but are implied by current interest rates. UK, Ireland & ECU are quoted in US currency. J.P. Morgan nominal indices Dec 4: Base average 1990=100.

WORLD INTEREST RATES

MONEY RATES

December 5	Over night	One month	Three mths	Six mths	One year	Lomb. Inter.	Dis. rate	Repo rate
Belgium	3⅛	3⅛	3⅛	3⅛	3⅛	6.00	2.50	-
France	3⅜	3⅜	3⅜	3⅜	3⅜	3.20	-	4.75
Germany	2⅞	3⅛	3⅛	3⅛	3⅛	4.50	2.50	3.00
Ireland	5½	5⅝	5⅝	5⅝	5⅝	-	-	6.25
Italy	7⅝	7⅛	7⅛	6⅞	6⅝	9.00	7.50	8.05
Netherlands	2⅞	2⅝	2⅝	2⅝	3⅛	-	3.00	3.30
Switzerland	1⅞	2⅛	2⅛	2	2⅛	-	1.00	-
US	5⅜	5⅜	5⅜	5⅝	5⅝	-	5.00	-
Japan	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	-	0.50	-
■ $ LIBOR FT London								
Interbank Fixing	-	5⅜	5½	5⅝	5⅝	-	-	-
US Dollar CDs	-	4.94	5.05	5.09	5.20	-	-	-
ECU Linked Ds	-	4⅝	4⅝	4⅝	4⅜	-	-	-
SDR Linked Ds	-	3⅜	3⅜	3⅜	3⅜	-	-	-

$ LIBOR interbank fixing rates are offered rates for $10m quoted to the market by four reference banks at 11am each working day. The banks are: Bankers Trust, Bank of Tokyo Mitsubishi, Barclays and National Westminster.
Mid rates are shown for the domestic Money Rates, US$ CDs, ECU & SDR Linked Deposits (Ds).

EURO CURRENCY INTEREST RATES

Dec 5	Short term	7 days notice	One month	Three months	Six months	One year
Belgian Franc	3⅛ - 2⅞	3⅛ - 2⅞	3⅛ - 3	3⅛ - 3	3⅛ - 3⅛	3¼ - 3⅛
Danish Krone	3⅝ - 3⅛	3⅝ - 3½	3⅝ - 3½	3⅝ - 3½	3⅝ - 3½	3⅝ - 3½
D-Mark	3⅛ - 3	3⅛ - 3⅛	3⅛ - 3⅛	3⅛ - 3⅛	3⅛ - 3⅛	3¼ - 3
Dutch Guilder	2⅞ - 2⅞	2⅞ - 2⅞	3 - 2⅞	3⅛ - 2⅞	3⅛ - 3⅛	3⅛ - 3⅛
French Franc	3⅜ - 3⅜	3⅜ - 3⅜	3⅜ - 2⅞	3⅜ - 3⅜	3⅜ - 3⅜	3½ - 3⅜
Portuguese Esc.	6⅞ - 6⅞	6⅞ - 6¾	6⅞ - 6¾	6⅞ - 6⅞	6⅞ - 6⅞	6⅞ - 6⅞
Spanish Peseta	6⅞ - 6⅞	6⅞ - 6⅞	6⅞ - 6⅝	6⅞ - 6⅞	6⅝ - 6⅛	6⅛ - 6⅛
Sterling	5⅞ - 5⅞	5⅞ - 5⅞	6⅛ - 6⅛	6⅜ - 6⅜	6⅞ - 6⅞	6⅞ - 6⅞
Swiss Franc	1⅞ - 1¾	1⅞ - 1¾	2⅛ - 2⅛	2⅛ - 2	2⅛ - 2	2¼ - 2⅛
Can. Dollar	3⅛ - 2⅞	3⅛ - 2⅞	3 - 2⅞	3 - 2⅞	3⅛ - 2⅞	3⅛ - 3⅛
US Dollar	5⅝ - 5¼	5⅜ - 5¼	5⅜ - 5⅜	5½ - 5⅜	5⅝ - 5⅝	5⅝ - 5½
Italian Lira	8⅛ - 7½	7¾ - 7⅝	7½ - 7⅜	7⅛ - 7	6⅞ - 6⅞	6⅞ - 6⅞
Yen	½ - ⅜	⅜ - ¼	⅜ - ⅜	⅜ - ⅜	⅜ - ⅜	⅜ - ⅜
Asian $Sing	3½ - 3⅜	3⅝ - 3½	3⅝ - 3½	3⅜ - 3⅜	3½ - 3⅜	3½ - 3⅜

Short term rates are call for the US Dollar and Yen, others: two days' notice.

■ THREE MONTH PIBOR FUTURES (MATIF) Paris Interbank offered rate

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Dec	96.55	96.55	-0.01	96.59	96.55	11,387	36,292
Mar	96.60	96.60	-	96.65	96.58	19,236	66,331
Jun	96.60	96.58	-0.02	96.64	96.56	7,080	38,931

■ THREE MONTH EUROMARK FUTURES (LIFFE)* DM1m points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Dec	96.79	96.78	-0.03	96.82	96.75	39658	191775
Mar	96.88	96.83	-0.03	96.89	96.82	43364	210203
Jun	96.80	96.78	-0.05	96.84	96.73	36854	176783
Sep	96.67	96.63	-0.05	96.72	96.59	36797	139846

■ ONE MONTH EUROMARK FUTURES (LIFFE)* DM5m points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Dec	96.72	96.70	-0.02	96.76	96.70	538	4025
Jan	96.89	96.89	-0.01	96.89	96.88	382	4879
Feb	96.91	96.89	-0.02	96.91	96.88	674	2303
Mar	96.91	96.89	-0.02	96.91	96.89	233	1081

■ THREE MONTH EUROLIRA FUTURES (LIFFE) L1000m points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Dec	92.96	92.94	-0.02	92.98	92.92	12228	82580
Mar	93.82	93.88	-	93.72	93.61	15008	82562
Jun	93.99	94.01	-0.01	94.08	93.98	5351	48018
Sep	94.13	94.14	-	94.20	94.12	3869	29459

■ THREE MONTH EURO SWISS FRANC FUTURES (LIFFE) SFr1m points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Dec	97.88	97.82	-0.05	97.88	97.80	3420	24638
Mar	97.93	97.87	-0.04	97.98	97.80	9431	34068
Jun	97.83	97.80	-0.02	97.88	97.80	1804	16105
Sep	97.67	97.61	-0.02	97.70	97.60	557	6764

■ THREE MONTH EUROYEN FUTURES (LIFFE) Y100m points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Dec	99.47	99.48	+0.01	99.48	99.47	2556	na
Mar	99.43	99.45	-0.01	99.45	99.43	2111	na
Jun	99.33	99.33	-0.02	99.35	99.32	208	na

■ THREE MONTH ECU FUTURES (LIFFE) Ecu1m points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Dec	95.86	95.84	-	95.87	95.84	921	8325
Mar	95.91	95.90	-0.02	95.95	95.89	907	8895
Jun	95.91	95.90	-0.02	95.95	95.89	194	3981
Sep	95.80	95.86	-0.03	95.93	95.87	297	3236

* LIFFE futures also traded on APT

■ EUROLIRA OPTIONS (LIFFE) L1000m points of 100%

Strike Price	CALLS Dec	CALLS Mar	CALLS Jun	PUTS Dec	PUTS Mar	PUTS Jun
9275	0.22	0.95	1.32	0.01	0.04	0.08
9300	0.05	0.78	1.11	0.09	0.07	0.10
9325	0.01	0.52	0.88	0.32	0.11	0.13

Est. vol. total, Calls 850 Puts 50. Previous day's open int., Calls 125709 Puts 98787

CROSS RATES AND DERIVATIVES

EXCHANGE CROSS RATES

Dec 5		BFr	DKr	FFr	DM	I£	L	Fl	NKr	Es	Pta	SKr	SFr	£	C$	$	Y	Ecu
Belgium	(BFr)	100	18.58	16.39	4.850	1.908	4783	5.441	20.30	490.0	407.8	21.26	4.110	1.917	4.241	3.121	351.0	2.515
Denmark	(DKr)	53.81	10	8.818	2.610	1.027	2574	2.928	10.93	263.7	219.4	11.44	2.212	1.032	2.282	1.680	188.9	1.354
France	(FFr)	61.02	11.34	10	2.960	1.164	2919	3.320	12.39	299.0	248.8	12.97	2.508	1.170	2.588	1.905	214.2	1.535
Germany	(DM)	20.62	3.831	3.379	1	0.393	986.2	1.122	4.186	101.0	84.07	4.383	0.847	0.395	0.874	0.643	72.37	0.519
Ireland	(I£)	52.42	9.742	8.591	2.543	1	2506	2.852	10.64	256.9	213.8	11.15	2.155	1.005	2.223	1.636	184.0	1.319
Italy	(L)	2.091	0.388	0.343	0.101	0.040	100.	0.114	0.424	10.24	8.526	0.444	0.086	0.040	0.089	0.065	7.339	0.053
Netherlands	(Fl)	18.38	3.415	3.012	0.891	0.351	879.1	1	3.732	90.06	74.95	3.908	0.755	0.352	0.779	0.574	64.52	0.462
Norway	(NKr)	49.25	9.153	8.072	2.389	0.940	2356	2.680	10	241.4	200.8	10.47	2.025	0.944	2.089	1.537	172.9	1.239
Portugal	(Es)	20.41	3.792	3.344	0.990	0.389	976.1	1.110	4.143	100.	83.22	4.339	0.839	0.391	0.865	0.637	71.64	0.513
Spain	(Pta)	24.52	4.557	4.019	1.189	0.468	1173	1.334	4.978	120.2	100.	5.214	1.008	0.470	1.040	0.765	86.08	0.617
Sweden	(SKr)	47.03	8.740	7.708	2.281	0.897	2250	2.559	9.549	230.5	191.8	10	1.933	0.902	1.995	1.468	165.1	1.183
Switzerland	(SFr)	24.33	4.521	3.987	1.180	0.464	1164	1.324	4.939	119.2	99.21	5.173	1	0.466	1.032	0.759	85.40	0.612
UK	(£)	52.16	9.693	8.548	2.530	0.995	2495	2.838	10.59	255.6	212.7	11.09	2.144	1	2.212	1.628	183.1	1.312
Canada	(C$)	23.58	4.382	3.864	1.144	0.450	1128	1.283	4.786	115.6	96.18	5.014	0.969	0.452	1	0.736	82.78	0.593
US	($)	32.04	5.954	5.251	1.554	0.611	1533	1.743	6.505	157.0	130.7	6.812	1.317	0.614	1.359	1	112.5	0.806
Japan	(Y)	28.49	5.294	4.668	1.382	0.543	1363	1.550	5.784	139.6	116.2	6.057	1.171	0.546	1.208	0.889	100.	0.717
Ecu		39.76	7.388	6.516	1.928	0.758	1902	2.163	8.072	194.8	162.1	8.453	1.634	0.762	1.686	1.241	139.6	1

Danish Kroner, French Franc, Norwegian Kroner, and Swedish Kronor per 10; Belgian Franc, Yen, Escudo, Lira and Peseta per 100.

■ D-MARK FUTURES (IMM) DM 125,000 per DM

	Open	Latest	Change	High	Low	Est. vol	Open int.
Dec	0.6413	0.6427	+0.0013	0.6445	0.6402	19,278	68,079
Mar	0.6450	0.6465	+0.0018	0.6480	0.6438	4,149	15,947
Jun	0.6502	0.6519	+0.0035	0.6520	0.6502	8	4,268

■ JAPANESE YEN FUTURES (IMM) Yen 12.5 per Yen 100

	Open	Latest	Change	High	Low	Est. vol	Open int.
Dec	0.8859	0.8849	-0.0009	0.8910	0.8835	15,907	65,873
Mar	0.8984	0.8963	-0.0009	0.9015	0.8950	3,549	9,805
Jun	0.9105	0.9098	+0.0013	0.9110	0.9095	99	1,036

■ SWISS FRANC FUTURES (IMM) SFr 125,000 per SFr

	Open	Latest	Change	High	Low	Est. vol	Open int.
Dec	0.7580	0.7588	+0.0008	0.7627	0.7567	15,024	49,297
Mar	0.7660	0.7650	+0.0008	0.7688	0.7650	2,462	10,175
Jun	-	0.7745	+0.0038	0.7745	-	593	1,301

■ STERLING FUTURES (IMM) £62,500 per £

	Open	Latest	Change	High	Low	Est. vol	Open int.
Dec	1.6424	1.6260	-0.0168	1.6474	1.6100	15,732	53,752
Mar	1.6418	1.6210	-0.0180	1.6422	1.6100	2,879	5,458
Jun	-	1.6140	-0.0188	-	1.6100	22	1,306

UK INTEREST RATES

LONDON MONEY RATES

Dec 5	Over-night	7 days notice	One month	Three months	Six months	One year
Interbank Sterling	6¼ - 5½	5⅞ - 5⅞	6⅛ - 6	6⅜ - 6⅛	6⅝ - 6½	7 - 6⅞
Sterling CDs	-	-	6⅛ - 6⅛	6⅜ - 6⅜	6⅞ - 6⅞	6⅞ - 6⅞
Treasury Bills	-	-	5⅞ - 5⅞	6⅛ - 6⅛	-	-
Bank Bills	-	-	6 - 5⅞	6¼ - 6⅛	6⅜ - 6⅜	-
Local authority deps.	6⅜ - 5⅞	5⅞ - 5¾	6⅛ - 6	6⅜ - 6¼	6⅜ - 6⅜	6⅝ - 6⅝
Discount Market deps	6 - 5½	5⅞ - 5¾	-	-	-	-

UK clearing bank base lending rate 6 per cent from October 30, 1996

	Up to 1 month	1-3 month	3-6 months	6-9 months	9-12 months
Certs of Tax dep. (£100,000)	2½	5½	5	5	4¾

Certs of Tax dep. under £100,000 is 2½pc. Deposits withdrawn for cash 1½pc.
Ave. tender rate of discount on Nov 29, 6.1325pc. ECGD fixed rate Stlg. Export Finance. Make up day Nov 29, 1996. Agreed rate for period Dec 25, 1996 to Jan 25, 1997, Scheme III 7.61pc. Reference rate for period Nov 1, 1996 to Nov 29, 1996, Scheme IV & V 6.373pc. Finance House Base Rate 6½pc from Dec 1, 1996

■ THREE MONTH STERLING FUTURES (LIFFE) £500,000 points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Dec	93.55	93.61	+0.05	93.64	93.54	22142	95673
Mar	93.27	93.38	+0.10	93.48	93.27	54334	107891
Jun	92.99	93.08	+0.08	93.19	92.96	53254	97286
Sep	92.77	92.84	+0.05	92.96	92.76	23214	59389
Dec	92.65	92.69	+0.03	92.82	92.62	6566	40830

Also traded on APT. All Open interest figs. are for previous day.

■ SHORT STERLING OPTIONS (LIFFE) £500,000 points of 100%

Strike Price	CALLS Dec	CALLS Mar	CALLS Jun	PUTS Dec	PUTS Mar	PUTS Jun
9350	0.13	0.11	0.08	0.02	0.23	0.51
9375	0.01	0.03	0.04	0.15	0.40	0.71
9400	0	0.01	0.02	0.39	0.63	0.94

Est. vol. total, Calls 10123 Puts 6959. Previous day's open int., Calls 242626 Puts 169499

BASE LENDING RATES

	%		%		%
Adam & Company	6.00	Cyprus Popular Bank	6.00	NatWestminster	6.00
Allied Irish Bank (GB)	6.00	Duncan Lawrie	6.00	●Rea Brothers	6.00
Allied Trust Bank	6.00	Exeter Bank Limited	7.00	Royal Bk of Scotland	6.00
●Henry Ansbacher	6.00	Financial & Gen Bank	7.00	●Singer & Friedlander	6.00
Bank of Baroda	6.00	●Robert Fleming & Co	6.00	●Smith & Williamson Secs	6.00
Banco Bilbao Vizcaya	6.00	Girobank	5.75	Scottish Widows Bank	6.00
Bank of Cyprus	6.00	●Guinness Mahon	6.00	TSB	6.00
Bank of Ireland	6.00	Habib Bank AG Zurich	6.00	United Bank of Kuwait	6.00
Bank of India	6.00	●Hambros Bank	6.00	Unity Trust Bank Plc	6.00
Bank of Scotland	6.00	Heritable & Gen Inv Bk	6.00	Western Trust	6.00
Barclays Bank	6.00	●Hill Samuel	6.00	Whiteaway Laidlaw	6.00
Brit Bk of Mid East	6.00	C. Hoare & Co	6.00	Yorkshire Bank	6.00
●Brown Shipley & Co Ltd	6.00	Hongkong & Shanghai	6.00		
Citibank NA	6.00	Julian Hodge Bank	6.00	● Members of London Investment Banking Association	
Clydesdale Bank	6.00	●Leopold Joseph & Sons	6.00		
The Co-operative Bank	6.00	Lloyds Bank	6.00		
Coutts & Co	6.00	Midland Bank	6.00	* In administration	
Crédit Lyonnais	6.00	*Mount Credit Corp	6.25		

EMS EUROPEAN CURRENCY UNIT RATES

Dec 5	Ecu cen. rates	Rate against Ecu	Change on day	% +/- from cen. rate	% spread v weakest	Div. ind.
Ireland	0.792103	0.761694	+0.007068	-4.61	8.11	21
Finland	5.85424	5.78289	-0.00415	-1.22	2.47	8
Portugal	197.398	195.395	-0.347	-1.02	2.26	7
Spain	163.826	162.645	-0.381	-0.60	1.83	4
Italy	1906.48	1906.82	-2.57	0.02	1.18	-0
Netherlands	2.15214	2.17045	-0.00486	0.40	0.81	-5
Belgium	39.7191	40.2163	-0.0886	0.43	0.78	-3
Germany	1.92573	1.93496	-0.00283	0.48	0.73	-5
Austria	13.5485	13.6146	-0.0293	0.49	0.73	-4
Denmark	7.34555	7.40606	-0.01184	0.57	0.34	-8
France	6.45863	6.53732	-0.01301	1.22	0.00	-10
NON ERM MEMBERS						
Greece	292.867	304.666	+0.057	3.16	-1.90	-
UK	0.786749	0.756900	+0.009724	-3.84	4.84	-

Ecu central rates set by the European Commission. Currencies are in descending relative strength. Percentage changes are for Ecu; a positive change denotes a weak currency. Divergence shows the ratio between two spreads: the percentage difference between the actual market and Ecu central rates for a currency, and the maximum permitted percentage deviation of the currency's market rate from its Ecu central rate. 17/9/92 Sterling suspended from ERM. Adjustment calculated by the Financial Times.

■ PHILADELPHIA SE £/$ OPTIONS £31,250 (cents per pound)

Strike Price	CALLS Dec	CALLS Jan	CALLS Feb	PUTS Dec	PUTS Jan	PUTS Feb
1.630	1.83	2.37	2.66	0.56	1.17	1.84
1.640	1.22	1.81	2.36	0.94	1.50	2.30
1.650	0.76	1.42	1.91	1.45	2.16	2.85

Previous day's vol., Calls 3,140 Puts 2,241. Prev. day's open int., Calls 53,428 Puts 57,604

■ PHILADELPHIA SE DM/$ OPTIONS DM62,500 (cents per DM)

Strike Price	CALLS Dec	CALLS Jan	CALLS Feb	PUTS Dec	PUTS Jan	PUTS Feb
0.635	0.78	1.12	1.44	0.15	0.37	0.55
0.640	0.46	0.81	1.14	0.32	0.59	0.75
0.645	0.25	0.58	0.88	0.60	0.78	1.01

Previous day's vol., Calls 618 Puts 728. Prev. day's open int., Calls 37,530 Puts 28,651

■ THREE MONTH EURODOLLAR (IMM) $1m points of 100%

	Open	Latest	Change	High	Low	Est. vol	Open int.
Dec	94.50	94.51	-	94.51	94.50	24,334	383,686
Mar	94.52	94.51	-0.01	94.53	94.50	48,761	405,693
Jun	94.43	94.41	-0.02	94.45	94.38	39,570	300,201

■ US TREASURY BILL FUTURES (IMM) $1m per 100%

	Open	Latest	Change	High	Low	Est. vol	Open int.
Dec	-	95.11	-	-	-	205	1,147
Mar	95.05	95.05	+0.01	95.05	95.05	524	4,845
Jun	94.98	94.94	-0.02	94.97	94.94	111	2,028

All Open interest figs. are for previous day

■ EUROMARK OPTIONS (LIFFE) DM1m points of 100%

Strike Price	CALLS Dec	CALLS Jan	CALLS Feb	CALLS Mar	PUTS Dec	PUTS Jan	PUTS Feb	PUTS Mar
9675	0.03	0.13	0.13	0.18	0.02	0.05	0.05	0.08
9700	0	0.03	0.03	0.04	0.24	0.20	0.20	0.21
9725	0	0.01	0.01	0.01	0.49	0.44	0.42	0.43

Est. vol. total, Calls 16008 Puts 2325. Previous day's open int., Calls 264428 Puts 248521

■ EURO SWISS FRANC OPTIONS (LIFFE) SFr 1m points of 100%

Strike Price	CALLS Dec	CALLS Mar	CALLS Jun	PUTS Dec	PUTS Mar	PUTS Jun
9800	0.03	0.21	0.31	0.21	0.34	0.51
9825	0.01	0.11	0.19	0.44	0.49	0.64

Est. vol. total, Calls 0 Puts 0. Previous day's open int., Calls 6721 Puts 2870

COMMODITIES AND AGRICULTURE

European central bank said to have sold gold

MARKETS REPORT

By Kenneth Gooding and Deborah Hargreaves

The gold market yesterday was awash with rumours that a European central bank had been selling gold overnight. Traders suggested 600,000 ounces, or 18.7 tonnes, had been sold, and this was followed with heavy selling by investment funds.

Analysts noted that it would probably take months to confirm any sale. Portugal's central bank earlier this week denied it had sold gold, and yesterday the Belgian central bank said the same.

Central banks have about 35,000 tonnes of gold in their reserves. Mr Andy Smith, analyst at UBS, has said that the 10 central banks with the most gold between them are giving up more than $15bn a year in interest earnings.

At the morning "fix" in London, gold was $368.30 an ounce, not far above the three-year low reached on Tuesday. By the close, it had recovered slightly to $370.

On the London Metal Exchange copper prices eased again in late trading as traders suggested there would be another increase in stocks reported by the exchange today. It was rumoured that 4,000 tonnes of the metal had arrived in US warehouses and Singapore was also expected to show a rise in stocks.

Copper for three-month delivery on the LME ended late trading at $2,179 a tonne, down $29. The premium for copper for immediate delivery eased $15 to $152.50.

Natural gas futures on the New York Mercantile Exchange surged to a new high in early trading yesterday, with the January Henry Hub futures contract up 23 cents to $3.74 per million British thermal units. Prices later lost about 10 cents, but the market remained strong. Prices were buoyed by a reported fall in US gas stocks last week of 104bn cu ft, and a forecast for colder weather later this week. Stocks fell to 217bn cu ft – 8 per cent below year-ago levels.

Prices are being pushed up for oil products and crude, where stocks are already extremely low. Crude oil traded higher on news of a fire at a plant in Louisiana and an escalation in the French oil workers' strike. North Sea Brent futures at London's International Petroleum Exchange rose 36 cents to $24.14 a barrel near the end of the day.

The physical market was also strong, with January Brent up 43 cents to $24.11 a barrel. December gasoil futures at the IPE were up $5 to $229 a tonne.

See Lex

BSE cuts EU beef trade 32%, study says

By Frances Williams in Geneva

European Union beef trade has fallen 800,000 tonnes this year as a result of the "mad cow" disease crisis, according to a new market research study.

The unpublished study, by the Geneva-based Gira Meat Club, found beef trade fell from 2.5m tonnes in 1995 to 1.7m tonnes this year, on a 15 per cent fall in EU beef consumption, including a 25 per cent slide in the UK.

The biggest drop in demand has been in countries heavily reliant on beef imports such as Italy (21 per cent), Greece (25 per cent) and Portugal (31 per cent).

The drop in EU consumption, and the build-up of EU intervention stocks to an estimated 600,000 tonnes by the end of this year, means the whole beef industry faces overcapacity problems in 1997, the study warns.

Without greater quality controls on the fragmented output chain, the industry's troubles will continue, it adds.

Members of the Gira Meat Club, which has produced annual surveys of the global meat market since 1976, include official meat boards, meat and meat product producers, retailers and catering groups. Gira says that despite gains in the range of 2-3% in consumption of poultry and pigmeat, total meat consumption in the EU has fallen about 450,000 tonnes this year as consumers have turned to non-meat protein foods such as cheese and eggs.

The bovine spongiform encephalopathy crisis erupted in March when the British government admitted the possibility of a link between BSE in cows and a similar brain-wasting disease in humans.

Launch date set for ship index

By Deborah Hargreaves

The Baltic Exchange will launch on January 7 its new shipping index based on the smaller, more versatile carriers which are winning a larger proportion of world trade.

The exchange is expected to announce the creation of its Handymax index on Monday. It will be based on four timecharter routes with an imaginary ship made up to represent a typical Handysize carrier.

Handymax ships carry general cargo such as steel as well as dry bulk cargoes including coal. "It is a market that is moving very fast and expanding rapidly with a lot of people getting into it," said Mr Basil Mavroleon, chairman of the Baltic freight index committee.

The current Baltic freight index is based on larger Panamax ships, which navigate the Panama canal, and Capesize carriers, which travel round the Capes. The Handysize ship on which the new index is based is a 43,000-tonne deadweight carrier with four 25-tonne cranes.

Many of the new carriers under construction are Handysize – which means they range from 10,000 tonnes to just over 40,000 tonnes deadweight.

Brokers are already offering hedges in Handysize routes in the over-the-counter market and the new index will provide a reference for settling those. It could also form the basis of a futures contract.

Critics have complained that the BFI – which is based on 10 routes – is too broad for hedging specific shipments. The Handymax index is more narrowly-based and should more closely represent the physical trade.

Mr Mavroleon said the exchange was also looking at using its panel of shipbrokers to work out settlements on certain grain routes. It had decided against including typical grain routes in the index, as this would have made it less effective as a hedging tool.

● SSY group, the London-based shipbrokers, will become the latest shipping company to move into the growing freight derivatives business when it launches its own futures offshoot on Monday.

The company is looking to develop new products based on the Handysize index. It is also considering forward freight agreements based on coal-orientated routes and 1m-barrel sized tankers on the route from west Africa to the US.

Subsidy regime blights exotic harvests

Camelina, Linola and Lunaria conjure up images of three love-lorn sisters in an obscure operetta. In fact they are exotic "niche" crops with exciting market opportunities for European farmers.

From oilseed rape to hemp, flax and borage, niche crops have an expanding range of uses, including cosmetics, pharmaceuticals and car manufacturing. But many also face obstacles such as lack of start-up finance, planting restrictions and farmer resistance.

Camelina, for example, "could be a major European oilseed overnight" if it attracted the sort of subsidies received by oilseed rape, says Mr Andrew Hebard, managing director of Kings, an Essex-based agricultural merchant specialising in niche crops.

Also known as "gold of pleasure", camelina is prized for its fatty acids. These are useful in drying paint and are being pioneered in France for cosmetic use. The crop has the advantage of falling outside the 1993 Blair House deal on agricultural trade – which allows the European Union and the US to protect some agricultural subsidies until 2003 – and is not covered by restrictions on oilseed production.

But, being unsubsidised, camelina oil would trade at £800 a tonne, compared with £340 for rapeseed oil, says Mr Hebard. He is lobbying Brussels for a change in the rules to widen farmers' choice of crops. "It would nice to think there was some equality in the development of these new crops," he says.

Interest in the non-food uses of crops blossomed in the EU after Common Agricultural Policy reform in 1992 led to the start of set-aside. Crops such as oilseed rape and linseed for industrial use attract subsidies on set-aside land.

Ms Mara Ramans, an agricultural botanist and expert on niche crops, says only a few of the 1993 experimental crops have succeeded because farmers have been put off by the annual variation in the set-aside rate and the bureaucratic and financial intricacies of establishing specialist markets.

The winners include "double low" oilseed rape. Active government support in Austria, France and Germany ensures that this has a market as biodiesel – fuel made from grain. A lack of political will in the UK, and the availability of other non-renewable energy sources mean "most of our UK oilseed rape production for biodiesel is bound for France", Ms Ramans says.

She says high erucic acid rapeseed is also a popular set-aside crop in the UK, with 15,000 hectares harvested this year, nearly half the EU total. The plant's oil can be converted to erucimide, the agent used in polythene bags to make them easier to open.

Calgene, the US biotechnology company, has genetically engineered an oilseed rape plant to produce lauric acid – used in soaps and detergents, chocolate coatings and whipped dessert toppings. As it is found primarily in coconut and palm kernel oil, the UK imports £46m of lauric acid a year.

The potential for import substitution is therefore considerable. But its status as a genetically modified organism means it can only be grown in the UK under government licence.

Other subsidised crops include linola, which produces sunflower-quality edible oil, and short-fibre flax, which Mercedes is using for car door panels and sound insulation. Hemp fibre is used in the paper and textiles industries and the core is sold as biodegradable horse litter.

Unsupported crops with potential include borage, a source of gamma linolenic acid used in drugs and dietary food supplements, and lunaria – or honesty – a semi-wild source of nervonic acid, which is believed to have therapeutic benefits for diseases such as multiple sclerosis.

"In future we may all be growing for unsupported markets," says Ms Ramans. "Niche crops ... may become a precious profit opportunity in a fiercely competitive commodity market."

Alison Maitland

COMMODITIES PRICES

BASE METALS

LONDON METAL EXCHANGE
(Prices from Amalgamated Metal Trading)

■ ALUMINIUM, 99.7 PURITY ($ per tonne)

	Cash	3 mths
Close	1498.5-99.5	1526-27
Previous	1509.5-10.5	1537-8
High/low	1503	1536/1519
AM Official	1502-03	1532-32.5
Kerb close		1522-23
Open int.	249,865	
Total daily turnover	41,506	

■ ALUMINIUM ALLOY ($ per tonne)

Close	1330-40	1362-65
Previous	1340-50	1370-80
High/low	1370/1362	-
AM Official	1340-45	1365-67
Kerb close		1360-65
Open int.	6,369	
Total daily turnover	746	

■ LEAD ($ per tonne)

Close	686-87	692-92.5
Previous	675-7	683-5
High/low	685.5	694/689
AM Official	685-86	691.5-92.0
Kerb close		690-91
Open int.	36,993	
Total daily turnover	9,257	

■ NICKEL ($ per tonne)

Close	6810-20	6890-900
Previous	6845-55	6930-40
High/low	6815	6920/6880
AM Official	6820-25	6890-95
Kerb close		6870-80
Open int.	48,264	
Total daily turnover	9,063	

■ TIN ($ per tonne)

Close	6065-70	6095-100
Previous	6050-60	6085-95
High/low	6085	6120/6090
AM Official	6084-85	6110-11
Kerb close		6085-90
Open int.	15,576	
Total daily turnover	3,065	

■ ZINC, special high grade ($ per tonne)

Close	1042.5-43.5	1065-66
Previous	1042-3	1065-6
High/low	1047	1071/1065
AM Official	1046.5-47.5	1069-70
Kerb close		1065-66
Open int.	83,359	
Total daily turnover	9,257	

■ COPPER, grade A ($ per tonne)

Close	2353-58	2193-95
Previous	2367-72	2197-8
High/low	2387/2385	2215/2179
AM Official	2384-86	2214-15
Kerb close		2179-80
Open int.	169,987	
Total daily turnover	65,027	

■ LME AM Official £/$ rate: 1.6636
LME Closing £/$ rate: 1.6688

PRECIOUS METALS

Precious Metals continued

■ GOLD COMEX (100 Troy oz.; $/troy oz.)

	Sett price	Day's change	High	Low	Vol	Open int
Dec	371.3	+0.8	372.2	368.8	879	1,747
Feb	373.0	+0.8	374.4	369.5	37,172	94,846

ENERGY

GRAINS AND OIL SEEDS

■ WHEAT LIFFE (£ per tonne)

	Sett price	Day's change	High	Low	Vol	Open int
Jan	95.20	+0.85	95.00	94.75	90	1,589
Mar	97.20	+0.95	97.65	96.25	145	2,092

SOFTS

■ COCOA LIFFE (£/tonne)

	Sett price	Day's change	High	Low	Vol	Open int
Dec	892	+10	890	875	117	881
Mar	952	+18	954	927	4,300	80,868

MEAT AND LIVESTOCK

■ LIVE CATTLE CME (40,000lbs; cents/lbs)

	Sett price	Day's change	High	Low	Vol	Open int
Dec	66.425	+0.525	66.475	65.650	7,963	18,072
Feb	63.675	+0.075	63.675	62.525	7,674	29,880
Jul	72.350	+0.350	72.400	71.700	81	1,341
Aug	68.225	+0.225	68.250	67.800	62	878
Total					12,813	36,789

■ PORK BELLIES CME (40,000lbs; cents/lbs)

	Sett price	Day's change	High	Low	Vol	Open int
Feb	78.800	+0.750	78.850	77.250	2,477	4,544
Mar	78.125	+0.850	78.200	76.900	189	676
May	78.800	+1.200	78.800	77.150	34	583
Jul	78.725	+0.825	78.600	77.300	48	421
Aug	74.100	-0.025	74.100	74.100	48	99
Total					2,795	6,322

LONDON TRADED OPTIONS

Strike price $ tonne — Calls — — Puts —

■ ALUMINIUM (99.7%) LME	Jan	Apr	Jan	Apr
1400	112	151	2	16
1500	35	84	24	47
1600	5	39	93	101
■ COPPER (Grade A) LME	**Jan**	**Apr**	**Jan**	**Apr**
2000	249	220	10	81
2100	167	164	28	125
2200	102	115	62	117
■ COFFEE LIFFE	**Jan**	**Mar**	**Jan**	**Mar**
1300	37	39	26	90
1350	16	25	55	126
1400	6	16	95	167
■ COCOA LIFFE	**Mar**	**May**	**Mar**	**May**
900	61	83	9	13
925	43	65	16	20
950	30	50	28	30
■ BRENT CRUDE IPE	**Jan**	**Feb**	**Jan**	**Feb**
2200	-	185	-	-
2250	-	155	-	64
2300	-	-	6	85

LONDON SPOT MARKETS

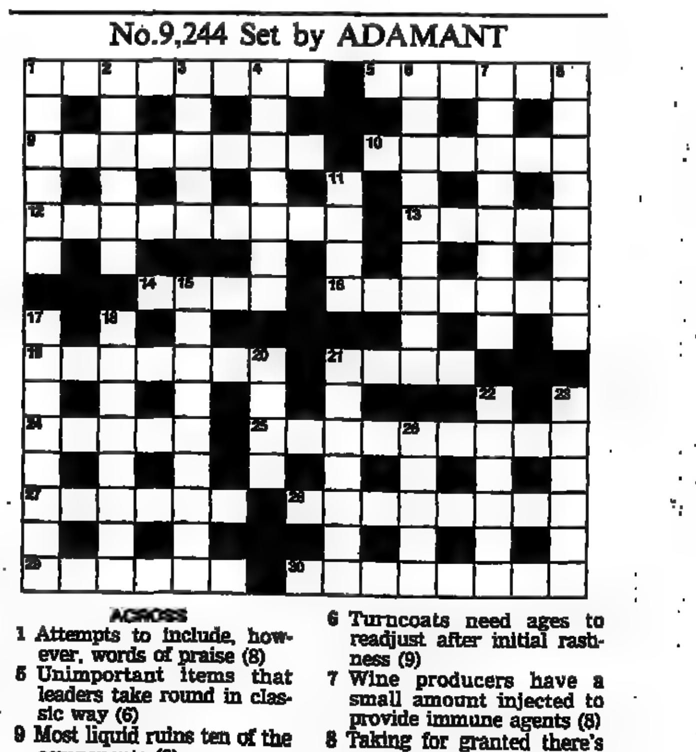
■ CRUDE OIL FOB (per barrel)		+or-
Dubai	$22.13-2.26w	+0.375
Brent Blend (dated)	$24.46-4.48	+0.230
Brent Blend (Jan)	$24.06-4.08	+0.260
W.T.I.	$25.17-5.20w	+0.175
■ OIL PRODUCTS NWE prompt delivery CIF (tonne)		
Premium Gasoline	$231-233	+1
Gas Oil	$230-231	+4.5
Heavy Fuel Oil	$123-125	-0.5
Naphtha	$231-232	-1.5
Jet fuel	$261-262	+4
Diesel	$244-246	+4
■ NATURAL GAS (Pence/therm)		
Bacton (Jan)	21.40-22.00	+0.05¢
Petroleum Argus. Tel. London (0171) 359 8792		
■ OTHER		
Gold (per troy oz)♣	$370.00	+0.35
Silver (per troy oz)♣	481.50c	+1.00
Platinum (per troy oz.)	$373.00	-1.00
Palladium (per troy oz.)	$116.00	-1.00

FUTURES DATA
All futures data supplied by CMS.

JOTTER PAD

CROSSWORD

No.9,244 Set by ADAMANT



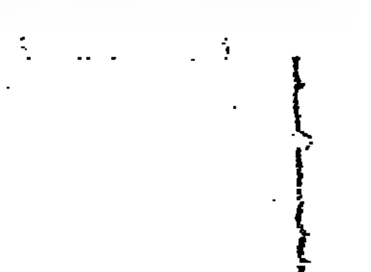
ACROSS

1 Attempts to include, however, words of praise (8)
5 Unimportant items that leaders take round in classic way (6)
9 Most liquid ruins ten of the components (8)
10 Sensible to come back to inner court which makes the rules (6)
12 Stuffing me into crate of mince (9)
13 Serious sounding story teller (5)
14 Rule the point is material (4)
16 Resentment at having first night in prison changed into day? (7)
19 Begged to put the case (7)
21 Enormous tax demands finally accepted (4)
24 Criticise the joint (5)
25 Native start in Lincoln (9)
27 Stand to take a few drugs, then take too many (6)
28 Care a bit about germs (8)
29 In case the engineers make a firm line (6)
30 After the theatre the French teacher came back for revenge (8)

DOWN

1 Fair exchange in rising paper price list (6)
2 Pay no attention to strange region (6)
3 Merge the university, you said, sir? (5)
4 In one sense, make money around the outset (7)
6 Turncoats need ages to readjust after initial rashness (9)
7 Wine producers have a small amount injected to provide immune agents (8)
8 Taking for granted there's a second lot of money in Gateshead (8)
11 Boss with true in the south of France (4)
15 Show trials (9)
17 Works it up having caught noted style (8)
18 Alleviating the pain of the case on the Stock Exchange (8)
20 Ring for help over the pound sterling (4)
21 Abuse instrument with seventh note (7)
22 Parts of the yarn from former Yugoslav provided uplift (6)
23 Sell off a litre (6)
26 In time the queen came to Bury (5)

Solution 9,243



FT MANAGED FUNDS SERVICE

Offshore Funds

● FT Cityline Unit Trust Prices are available over the telephone. Call the FT Cityline Help Desk on (+44 171) 873 4378 for more details.

OFFSHORE AND OVERSEAS

BERMUDA (SIB RECOGNISED)

Fidelity Currency Funds Ltd

Jupiter Tyndall (Bermuda) Ltd

BERMUDA (REGULATED)(**)

GUERNSEY (SIB RECOGNISED)

Prudential Fund Managers (Guernsey) Ltd

Rothschild Asset Management (CI) Ltd

GUERNSEY (REGULATED)(**)

Sandi International (Guernsey) Ltd

Schroder Investment Mngmt (Guernsey) Ltd

Stalees Fund Managers (Guernsey)

U.S. Advisors (Guernsey) Limited

Yamaichi Capital Mngt (Guernsey)

IRELAND (SIB RECOGNISED)

Murray Johnstone (Dublin) Ltd

Odey Asset Management Ltd

Old Mutual International Fd Mngrs Ltd

Baring Mutual (Ireland) Ltd

IRELAND (REGULATED)(**)

ISLE OF MAN (SIB RECOGNISED)

ISLE OF MAN (REGULATED)(**)

JERSEY (SIB RECOGNISED)

JERSEY (REGULATED)(**)

Offshore Funds and Insurances

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LUXEMBOURG (SIB RECOGNISED)

	Init Charge	Selling Price	Buying Price	+ or -	Yield Gr's
ABN AMRO Funds (u)					
4 Rue Jean Monet, L-2180 Luxembourg 352 424948520					
Latin America Equity		$48.52	49.05	–	–
North America Equity		$84.53	85.35	–	–
Asian Tigers Equity		$64.43	65.07	–	–
Europe Equity		$76.87	75.95	–	–
Germany Equity		[illegible]	142.73	–	–
Japan Equity		$47.63	48.11	–	–
Europe Bond		$62.16	62.34	–	–
US Bond		$59.85	60.10	–	–
Global Bond		$62.11	62.27	–	–
Germany Bond		[illegible]	110.42	–	–
Spain Bond		[illegible]	10738	–	–
Eastern Europe Equity F		[illegible]	164.22	–	–
China Equity F		$62.63	63.41	–	–
Switzerland Equity		[illegible]	127.60	–	–

Abtrust Fund Mngrs Luxembourg SA (u)
4 Boulevard Royal L-2449 Luxembourg 00 352 227001

	Init Charge	Selling Price	Buying Price	+ or -	Yield Gr's
Fidelity Funds - Contd.					
Italy		L14680		-82	–
Japan Smlr Cos		Y978.2		-4.0	–
Korea F	0	$7.900		-0.092	–
Latin America		$9.506		+0.036	–
Malaysia		$36.60		-0.05	–
Nordic		[illegible]		-1.1	–
Singapore		$28.33		+0.09	–
Switzerland		SFr15.55		-0.06	–
Thailand		$26.42		-0.12	–
United Kingdom		£1.168		-0.002	–
Bond Funds					
European		Ecu17.37		-0.01	5.92
International		$1.087		+0.002	6.33
US Dollar		$5.736		+0.004	5.78
Sterling		[illegible]		–	7.09
Yen		Y1884		–	2.25
Balanced					
European Balanced		[illegible]		-0.07	2.11

Prices as at December 4

Fleming Group (u)
6 Route De Treves L-2633 Senningerberg Luxembourg
00 352 34101 or 0800 960 254

OFFSHORE INSURANCES

LUXEMBOURG (REGULATED)(**)

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OTHER OFFSHORE FUNDS

● MANAGED FUNDS NOTES

LONDON SHARE SERVICE

ALCOHOLIC BEVERAGES

	Notes	Price	+ or -	52 week high	low	Mkt Cap£m	Yld Gr's	P/E
Allied Domecq		438½xd	-7	558	419	4,468	6.8	13.0
Bulmer (HP)		542½	—	625	477	[illegible]	3.0	18.2
Burn St Dist.		71	—	144	67½	42.1	6.0	75.5
Glenmorangie A		[illegible]	—	[illegible]	[illegible]	[illegible]	[illegible]	23.0
Grand Met		448	-10½	[illegible]	411	9,374	4.8	14.1
Guinness		[illegible]	-8	[illegible]	[illegible]	[illegible]	4.3	13.7
Highland		[illegible]	+6½	[illegible]	[illegible]	[illegible]	3.0	16.7
5¼pc Cnv Bds		[illegible]	—	[illegible]	[illegible]	-	-	-
Kirin Y		[illegible]	—	[illegible]	[illegible]	[illegible]	1.0	23.0
Matthew Clark		278	-8	[illegible]	[illegible]	[illegible]	10.8	13.2
Merrydown		110½	+3	141	91½	12.0	5.3	14.6
Seagram $		[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	1.2	-

BANKS, MERCHANT

BANKS, RETAIL

BREWERIES, PUBS & REST

BUILDING & CONSTRUCTION

BUILDING MATS. & MERCHANTS

CHEMICALS

CHEMICALS - Cont.

DISTRIBUTORS

DIVERSIFIED INDUSTRIALS

ELECTRICITY

ELECTRONIC & ELECTRICAL EQPT

ENGINEERING

ENGINEERING - Cont.

ENGINEERING, VEHICLES

EXTRACTIVE INDUSTRIES

EXTRACTIVE INDUSTRIES - Cont.

FOOD PRODUCERS

FOOD PRODUCERS - Cont.

GAS DISTRIBUTION

HEALTH CARE

HOUSEHOLD GOODS

HOUSEHOLD GOODS - Cont.

INSURANCE

INVESTMENT TRUSTS

INVESTMENT TRUSTS - Cont.

INV TRUSTS SPLIT CAPITAL

LONDON SHARE SERVICE

INV TRUSTS SPLIT CAPITAL - Cont.

[illegible]

OTHER INVESTMENT TRUSTS

[illegible]

INVESTMENT COMPANIES

[illegible]

LEISURE & HOTELS

[illegible]

LIFE ASSURANCE

[illegible]

LIFE ASSURANCE - Cont.

[illegible]

MEDIA

[illegible]

OIL EXPLORATION & PRODUCTION

[illegible]

OIL, INTEGRATED

[illegible]

OTHER FINANCIAL

[illegible]

PAPER, PACKAGING & PRINTING

[illegible]

PAPER, PACKAGING & PRINTING - Cont.

[illegible]

PHARMACEUTICALS

[illegible]

PROPERTY

[illegible]

PROPERTY - Cont.

[illegible]

RETAILERS, FOOD

[illegible]

RETAILERS, GENERAL

[illegible]

SUPPORT SERVICES

[illegible]

SUPPORT SERVICES - Cont.

[illegible]

TELECOMMUNICATIONS

[illegible]

TEXTILES & APPAREL

[illegible]

TEXTILES & APPAREL - Cont.

[illegible]

TOBACCO

[illegible]

TRANSPORT

[illegible]

WATER

[illegible]

AIM

[illegible]

AIM - Cont.

[illegible]

AMERICANS

[illegible]

CANADIANS

[illegible]

SOUTH AFRICANS

	Notes	Price	+ or -	52 week High	52 week low	Mkt Cap£m	Yld Gr's	P/E
Anglo Am Ind	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Barlow	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Gold Fds Prop R	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
MK Props	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
SASOL	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
SA Brews	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Standard Bank	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Tiger Oats	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Tongaat-Hulett	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

GUIDE TO LONDON SHARE SERVICE

Prices for the London Share Service are delivered by Extel, part of Financial Times Information.

Company classifications are based on those used for the FTSE Actuaries Share Indices.

Closing mid-prices are shown in pence unless otherwise stated. Highs and lows are based on intra-day mid-prices over a rolling 52 week period.

Where stocks are denominated in currencies other than sterling, this is indicated after the name. Prices shown for some of these foreign securities are converted into sterling from latest available local Stock Exchange prices.

Symbols referring to dividend status appear in the notes column daily as a guide to yields and P/E ratios. Dividends and Dividend covers are published on Monday.

Market capitalisation shown is calculated separately for each line of stock quoted.

Earnings used in calculations are based on IIMR 'Headline Earnings' formula.

Price/earnings ratios are based on latest annual reports and accounts and, where possible, are updated on interim figures.

Yields are based on mid-prices, are gross, adjusted for a dividend tax credit of 20 per cent and allow for value of declared distribution and rights.

Estimated Net Asset Values (NAVs) are shown for Investment Trusts, in pence per share, along with the percentage discounts (Dis) or premiums (Pm -) to the current closing share price. The NAV basis assumes prior charges at par value, convertibles converted and warrants exercised if dilution occurs.

- * Highs and lows marked thus have been adjusted to allow for capital changes.
- † Interim since increased or resumed
- ‡ Interim since reduced, passed or deferred
- Figures or report awaited
- Rule 2.1(a)(iv) Overseas incorporated companies listed on an approved exchange.
- Free annual/interim report available, see details below.
- USM; not listed on Stock Exchange and company not subjected to same degree of regulation as listed securities.
- †† Rule 4.2(a) Irish incorporated non-listed companies.
- # Price at time of suspension
- ¶ Indicated dividend yield after pending scrip and/or rights issue
- Merger bid or reorganisation in progress
- § Forecast dividend yield; p/e based on earnings updated by latest interim statement.
- Unregulated collective investment scheme.

a Yield based on annualised dividend
b Figures based on prospectus or other official estimate
c Yield excludes a special payment.
i Indicated dividend yield, p/e ratio based on latest annual earnings.
e Forecast, or estimated annualised dividend yield, p/e based on previous year's earnings.
z Dividend yield includes a special payment

F Yield based on prospectus or other official estimates for 1996-97.
G Yield based on prospectus or other official estimates for 1996
L Estimated annualised yield, p/e based on latest annual earnings.
M Yield based on prospectus or other official estimates for 1995-96.
Dividend is paid in whole or part as a

FD (Foreign Income Dividend)
Forecast annualised yield, p/e based on

Abbreviations:
xd ex dividend;
xc ex scrip issue;
xr ex rights;
xa ex all;
xd ex capital distribution.

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LONDON STOCK EXCHANGE

Sell-off in US bonds unsettles equity market

MARKETS REPORT

By Steve Thompson,
UK Stock Market Editor

There was an uneasy feeling around trading desks yesterday as share prices fell sharply late in the session, mirroring a sudden sell-off in the US bond market, which in turn brought heavy pressure to bear on gilts and other European bonds.

Such was the pressure exerted in global bond markets, that the FTSE 100 index, which earlier looked like launching a determined move on its all-time intra-day high, finished the session only modestly higher, up six points at 4,051.2.

The late retreat was only partly mirrored by the second line and smaller stocks. The FTSE 250 index closed only fractionally below the day's best level, ending 13.9 up at 4,435.8, against a session high of 4,437.4, while the SmallCap finished 4.1 ahead at 2,166.9.

Dealers said the sell-off in US bonds reflected a fall in the dollar and worries about today's non-farm payroll report for November. A big increase in employment could see more pressure emerge in Treasury bonds.

Adding to the worries circulating in London was a sudden bout of weakness in Reed International, whose shares plummeted in the wake of second thoughts after a trading update delivered by the publishing and information services group.

One of the best Footsie performers during the morning, Reed was transformed after a closer scrutiny of the comments made by the group and eventually led the losers list by a long way. One big US broker was said to have been selling exceptional amounts of stock.

Earlier, it was all smiles as Footsie raced higher, with sterling again under pressure. Adding to the firmness was a Confederation of British Industry distributive trades survey, which pointed to the lack of price pressures and slowing high street sales and which saw gilts move higher before lunch.

Comments from the governor of the Bank of England, who saw no need for excessive rate rises ahead of the general election and said the UK was not on the brink of a 1980s-type boom and bust cycle, helped the bullish feeling.

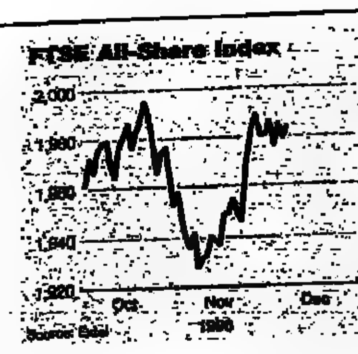
Wall Street's Wednesday performance, which saw the Dow Jones Industrial Average off 19 points and the bond market only a few ticks easier, caused few problems in European markets.

News that PowerGen, the English generator, had authorised the buyback of 5 per cent of its own shares, 33m shares in all, reminded institutions of other UK stocks likely to embark on the same course, notably Barclays Bank and National Power.

Barclays shares raced higher mainly at the expense of Abbey National and Lloyds TSB, both of which have outperformed the rest of the banking sector recently. British Gas closed off the top but still in good heart, after agreement on its "take and pay" contracts with BP.

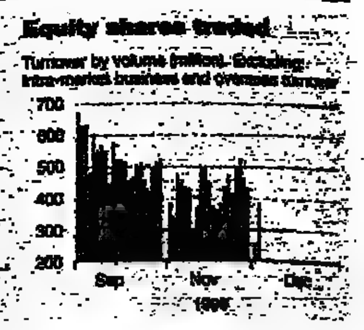
Turnover at 6pm was a hefty 910.8m shares, well ahead of recent levels. Traders pointed out, however, that daily customer business was dismal. Retail business on Wednesday was £873.1m.

FTSE All-Share index



Source: Datastream

Equity shares traded
Turnover by volume (million). Excluding: intra-market business and overseas turnover



Indices and ratios

FTSE 100	4051.2	+6.0	FT 30	2797.1	-2.0
FTSE 250	4435.8	+13.9	FTSE Non-Fins p/e	17.91	17.92
FTSE 350	2012.2	+3.7	FTSE 100 Fut Dec	4054.0	0.0
FTSE All-Share	1983.73	+3.64	10 yr Gilt yield	7.53	7.42
FTSE All-Share yield	3.80	3.81	Long gilt/equity yld ratio	1.97	1.98

Best performing sectors

1. Electricity .... +1.8
2. Life Assurance .... +1.6
3. Gas Distribution .... +1.6
4. Water .... +1.4
5. Utilities .... +1.4

Worst performing sectors

1. Alcoholic Beverages .... -1.9
2. Breweries: Pubs .... -0.8
3. Media .... -0.7
4. Engineering: Vehicles .... -0.5
5. Paper: Pckg & Print .... -0.5

Lottery boost to Ladbroke

By Joel Kibazo and Peter John

Betting and hotels company Ladbroke Group sparkled as news that the UK's leading gaming companies are finally to launch a rival to the National Lottery seeped into the market.

The shares jumped 7 to 214p, in heavy trading that brought turnover of 15m.

The word is that the UK's bookmakers are to launch a rival game to the National Lottery on December 16. There were few details about the exact nature of the new game but one market specialist said: "Bookmakers make their money on offering bets on numbers that come up in an alternative game to the national lottery, rather than running it as a lottery in its own right."

Early indications are that the new game will be played daily and will be transmitted on the SIS satellite system that is exclusive to just over half of the UK's 9,000 betting shops.

Gaming companies have acknowledged the sharp impact of the National Lottery on their profits since it was launched in November 1994. Earlier this week Bass, 12¼ lower at 800½p, attributed the 14 per cent decline in profits from bingo to pressure from the National Lottery.

ABN Amro yesterday turned more positive on Ladbroke following news of "an opportunity by betting shops to offer odds on an alternative lottery game."

The prospect of an alternative to the National Lottery had a mixed impact on shares of companies included in the Camelot consortium, that runs the game.

Reed reversal

The stock market may be fickle but a near 10 per cent turnaround for a Footsie share in one day is unusual.

Reed International rose 35 on the back of an acceptable trading statement. Then, at the end of a lengthy presentation with analysts, it transpired that margins were under pressure.

Media specialists suddenly realised that their forecasts were too generous and telephoned sales desks to put out a strong sell message.

The stock was marked down progressively until the stock closed a net 84 lower at 1087½p. The slide was backed by genuine selling which took turnover up to 11m, the heaviest since 1988.

Analysts were coy about commenting on the slide, saying Reed was very sensitive about criticism. But most were cutting back their forecasts. HSBC James Capel, which had been the most optimistic about prospects, slashed its forecasts for next year by 7 per cent to £880m.

Part of the downgrade reflected the impact of a strong pound against dollar earnings but the remainder was a response to the surprise news that acquisition-led growth would be on hold for the next couple of years.

Capel's forecast reduction was the most dramatic, as the broker was at the top end of the consensus range. However, Salomon Brothers, which was at the bottom of the range with a prediction of £904m for 1997, cut back to £870m and was said to be selling very heavily.

Gas advances

British Gas moved sharply higher initially on news that the company had successfully renegotiated some of its take-or-pay contract liabilities with BP and on further details of its planned demerger. Analysts were initially enthusiastic and some predicted the news could trigger further upside in British Gas's share price, possibly by as much as 35p.

However, the bears were unimpressed. Mr Paul Spedding of Kleinwort Benson believed the market had failed to acknowledge the underlying problems that still exist. "People won't buy a utility on a 3.9 per cent yield," he said, arguing that the shares were worth no more than 200p.

BT was once again a good market and the shares advanced 13 to 399¼p, in heavy trade of 27m.

Explaining the renewed interest in the international telecoms group, Mr James McCafferty at ABN Amro Hoare Govett said: "BT this week filed an application with the US authorities to seek approval for the recently announced deal with MCI. Also, with MCI shares having risen by around 7 per cent this week, there is a feeling among investors that things are beginning to happen, hence this rise in the stock."

Other leading issues in the sector continued to drift lower. Cable & Wireless gave up 7 to 453¼p while Vodafone Group eased 3 to 247½p, having traded 7.6m.

Talk of a takeover in the financial services sector continued to occupy investors following earlier rumours about BAT Industries and Abbey National.

BAT had fallen on Wednesday in the wake of a press report that talks to merge its financial services arm with a rival had foundered.

Yesterday, the stock was recovering, as dealers argued that the foundation for a merger was still intact. The view is that BAT has to do something with its Eagle Star franchise – either put it back in the limelight through an acquisition or sell it. Its name has been linked with Commercial Union. BAT recovered 2¼ to 471½p, with additional help from SGST, which has increased its price target. CU rose 8 to 677½p.

Meanwhile, Abbey National, which hit a new peak earlier in the week on speculation that it might be lining up for a mega-merger, possibly with the Prudential, ran into profit taking and slipped 6¼ to 700p with some investors shifting funds into Barclays.

Barclays closed 18 higher at a new peak of 1084p and the Pru improved 9¼ to 500½p.

A profits warning knocked a third off the price of AIM-quoted Crown Products, which slumped 11 to 22½p. Automotive design group Hawtal Whiting warned of a poor second half and saw its shares slip 29 to 105p.

PowerGen gained 17¼ to 589p after the electricity generator announced a buy-back of up to 5 per cent of its capital – 33.5m shares – through UBS and Kleinwort Benson. Dealers said the brokers were prepared to pay up to 605p a share.

Glaxo Wellcome remained under pressure from recent bearish recommendations and currency pressures. However, there was some support from ABN Amro Hoare Govett.

The broker said the shares were undervalued and while it adjusted its earnings per share numbers to reflect the strength of sterling, it upgraded the prospects for Zantac, the anti-ulcer treatment. The shares eased a penny to 957p.

FT 30 INDEX

	Dec 5	Dec 4	Dec 3	Dec 2	Nov 29	Yr ago	*High	*Low
FT 30	2797.1	2799.1	2810.7	2806.1	2827.0	2635.0	2885.2	2668.8
Ord. div. yield	4.05	4.05	4.04	4.04	4.02	4.07	4.22	3.76
P/E ratio net	17.03	17.02	17.09	17.06	17.16	15.79	17.46	15.80
P/E ratio nil	16.87	16.86	16.93	16.90	17.00	15.62	17.30	15.71

FT 30 since compilation: high 2885.2 19/04/96; low 49.4 26/06/40. Base Date 1/7/35.

FT 30 hourly changes

Open	9.00	10.00	11.00	12.00	13.00	14.00	15.00	16.00	High	Low
2802.5	2806.7	2815.2	2811.0	2813.7	2812.8	2809.2	2805.4	2803.8	2815.3	2797.0

	Dec 5	Dec 4	Dec 3	Dec 2	Nov 29	Yr ago
SEAQ bargains	36,336	34,436	34,589	36,226	35,810	28,401
Equity turnover (£m)†	-	873.1	956.9	671.2	972.5	1744.0
Equity bargains†	-	19,674	22,028	21,004	23,008	32,689
Shares traded (mil)†	-	396.5	380.9	253.5	438.7	690.0

†Excluding intra-market business and overseas turnover.

	Dec 5	Dec 4	Dec 3	Dec 2	Nov 29	Yr ago	*High	*Low
FTSE AIM	1034.50	1036.10	1037.00	1036.20	1038.00	-	1140.40	965.70

 *For 1996.

London market data

Rises and falls*		52 Week highs and lows		LIFFE Equity options	
Total Rises	667	Total Highs	100	Total contracts	34,356
Total Falls	434	Total Lows	55	Calls	20,721
Same	1,465			Puts	13,635

Dec 5 *Data based on Equity shares listed on the London Share Service.

FUTURES AND OPTIONS

■ FTSE 100 INDEX FUTURES (LIFFE) £25 per full index point (APT)

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Dec	4055.0	4054.0	-	4067.0	4048.5	16923	49065
Mar	4076.5	4073.5	-2.0	4108.0	4068.0	3940	16283
Jun	4124.0	4094.0	-	4127.0	4107.0	120	1813

■ FTSE 250 INDEX FUTURES (LIFFE) £10 per full index point

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Dec		4445.0	+9.0			0	3430
Mar		4495.0	+9.0			0	1920

■ FTSE 100 INDEX OPTION (LIFFE) (*4051) £10 per full index point

	3900 C	3900 P	3950 C	3950 P	4000 C	4000 P	4050 C	4050 P	4100 C	4100 P	4150 C	4150 P	4200 C	4200 P	4250 C	4250 P
Dec	161½	5	114	8	71	16	36½	33	13½	63	3½	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Jan	182	14	140	22	101	35	67	53	40½	78½	20½	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Feb	207½	30½	168½	41	131½	54½	98½	72½	70½	96½	46½	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Mar	217½	45½	181	69	145½	74	114	94	86½	146½	63½	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Jun†	272	86½			205	120½			152	166			[illegible]	[illegible]		

Calls 5,735 Puts 4,309

■ EURO STYLE FTSE 100 INDEX OPTION (LIFFE) £10 per full index point

	3875 C	3875 P	3925 C	3925 P	3975 C	3975 P	4025 C	4025 P	4075 C	4075 P	4125 C	4125 P	4175 C	4175 P	4225 C	4225 P
Dec	182	3½	135	6½	91	12	52	23	20½	44½	8½	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Jan	235	13	161	16	119½	27½	88	40	51	69	28	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Feb	231½	25½	190	34	150½	44½	114	58	82½	76½	56	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Mar	235½	40½	197½	51½	161½	64½	128½	81	98	100½	75	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Jun†			253½	90			189	122½			136½	[illegible]	[illegible]	[illegible]		

Calls 4,818 Puts 2,792 * Underlying index value. Premiums shown are based on settlement prices. † Long dated expiry months.

LONDON RECENT ISSUES: EQUITIES

Issue price p	Amt paid up	Mkt. cap (£m.)	1996 High	1996 Low	Stock	Close price p	+/-	Net div.	Div. cov.	Grs yld	P/E net
90	F.P.	14.1	107½	100½	†Access Plus	100½xd		ab8.45	1.6	4.3	13.3
§70	F.P.	18.8	84½	72½	Advanced Power	79½		-	-	-	-
§3	F.P.	7.85	4¼	4	†Beechcroft	4		-	-	-	13.2
[illegible]											
*	F.P.	92.0	185	117½	Grantchester	131½		-	-	-	-
§50	F.P.	6.61	52½	47½	†Kam River	50½		-	-	-	-
§160	F.P.	29.0	227½	157½	†Majestic Wines	227½	+1	-	-	-	13.3
§135	F.P.	26.3	142½	132½	Oliver Ashworth	135		F4.6	1.9	4.3	12.0
125	F.P.	22.0	135½	124½	Provend	127½		RW3.6	2.4	3.5	13.0
§90	F.P.	16.1	100½	94½	†Recycling Servs	99½		W3.2	-	4.0	-
§125	F.P.	34.0	139½	130½	Scot Highland Ht	139½		R3.0	2.4	2.7	13.9
§	F.P.	9.22	112½	110½	Second St David	112½	+1	-	-	-	-
§	F.P.	1.02	10½	9½	Do Residual Cap	9½		-	-	-	-
§	F.P.	10.9	185	185	Do Zero Div Prf	185		-	-	-	-
§160	F.P.	17.5	226½	216½	Semple Cochrane	225	-1	-	-	-	21.1
3	F.P.	25.8	3¼	3¼	†Snakeboard	3¼		-	-	-	-

† Alternative Investment Market. § Placing price. * Introduction. For a full explanation of all other symbols please refer to The London Share Service notes.

FT GOLD MINES INDEX

	Dec 4	% chg on day	Dec 3	Year ago	Gross div yield %	P/E ratio	52 week High	52 week Low
Gold Mines Index (32)	1846.72	+2.6	1800.60	1988.88	1.84	-	2920.73	1800.60
■ Regional Indices								
Africa (14)	2178.15	+1.3	2151.14	2361.62	3.62	31.29	3569.66	2151.14
Australasia (6)	2112.63	+1.6	2081.45	2434.19	2.68	20.88	2927.34	2005.75
North America (12)	1720.42	+3.2	1665.73	1697.25	0.76	65.11	2186.39	1648.45

 Figures in brackets show number of companies. Basis US Dollars. Base Value: 1000.00 31/12/92. † Partial. Latest prices were unavailable for this edition.

FTSE Actuaries Share Indices — The UK Series

Produced in conjunction with the Faculty and Institute of Actuaries

	Dec 5	Day's chge%	Dec 4	Dec 3	Dec 2	Year ago	Div. yield%	Net cover	P/E ratio	Xd adj. ytd	Total Return
FTSE 100	4051.2	+0.1	4046.2	4061.5	4035.5	3639.6	3.93	2.03	15.67	165.88	1691.60
FTSE 250	4435.8	+0.3	4421.9	4427.6	4414.8	3953.9	3.54	1.49	23.60	166.90	1811.99
FTSE 250 ex IT	4471.5	+0.3	4459.2	4466.6	4453.9	3965.6	3.64	1.52	22.61	175.10	1830.64
FTSE 350	2012.2	+0.2	2008.5	2015.4	2005.2	1804.7	3.86	1.92	16.88	81.00	1715.98
FTSE 350 Higher Yield	1927.4	+0.6	1916.3	1922.0	1910.6	1800.7	5.11	1.80	13.60	101.79	1384.95
FTSE 350 Lower Yield	2104.4	-0.2	2108.1	2116.2	2106.9	1813.4	2.71	2.14	21.59	60.77	1476.81
FTSE SmallCap	2166.95	+0.2	2162.77	2161.29	2159.96	1947.98	3.19	1.58	24.87	66.37	1806.73
FTSE SmallCap ex IT	2164.43	+0.1	2161.69	2161.08	2160.69	1925.96	3.40	1.64	22.35	70.26	1817.78
FTSE All-Share	1983.73	+0.2	1980.09	1986.29	1976.89	1779.24	3.80	1.90	17.29	78.43	1717.37

■ FTSE Actuaries Industry Sectors

	Dec 5	Day's chge%	Dec 4	Dec 3	Dec 2	Year ago	Div. yield%	Net cover	P/E ratio	Xd adj. ytd	Total Return
10 MINERAL EXTRACTION(22)	3880.88	+0.1	3875.84	3898.56	3865.24	3179.38	3.69	1.71	19.90	142.73	1701.04
12 Extractive Industries(6)	4182.56	-0.3	4195.62	4229.21	4221.67	4236.21	3.88	2.88	12.12	162.00	1246.61
15 Oil, Integrated(3)	4008.09	+0.1	4004.78	4024.13	3979.50	3220.11	3.85	1.55	20.92	154.36	1805.30
16 Oil Exploration & Prod(14)	2927.45	+1.2	2892.20	2927.27	2940.58	1971.99	1.80	1.73	40.07	52.93	1774.40
20 GEN INDUSTRIALS(275)	1968.97	+0.2	1964.94	1970.86	1971.47	1922.62	4.36	1.68	17.29	80.70	1099.24
21 Building & Construction(34)	1155.73	—	1155.67	1158.91	1152.32	1010.52	3.68	1.47	23.22	39.95	985.14
22 Building Matls & Merchs(29)	1810.75	+0.3	1805.06	1804.39	1796.20	1756.81	4.28	1.40	20.87	75.00	934.38
23 Chemicals(25)	2378.28	+0.9	2356.21	2350.21	2350.24	2330.49	4.34	1.44	20.00	101.33	1153.79
24 Diversified Industrials(19)	1376.23	+0.4	1370.97	1386.90	1382.60	1734.29	7.39	1.54	11.01	90.53	794.07
25 Electronic & Elect Equip(36)	2239.90	+0.1	2238.77	2234.53	2231.74	2103.56	3.50	1.47	24.28	64.68	1181.53
26–68	[illegible]										
69 NON-FINANCIALS(665)	2059.13	+0.1	2056.83	2065.87	2058.68	1871.04	3.85	1.81	17.91	84.44	1601.14
70 FINANCIALS(104)	3454.42	+0.4	3440.47	3438.66	3401.74	2899.94	3.86	2.36	13.72	127.04	1522.54
71 Banks, Retail(8)	4967.18	+0.1	4959.80	4955.20	4897.27	4109.88	3.67	2.70	12.62	175.98	1660.54
72 Banks, Merchant(6)	3960.81	+0.1	3957.83	3940.34	3933.12	3612.60	2.63	3.01	15.80	100.78	1278.77
73 Insurance(21)	1624.04	+1.3	1602.46	1599.13	1582.81	1443.01	5.17	2.29	10.55	80.65	1258.16
74 Life Assurance(7)	4073.39	+1.6	4010.90	4005.19	3994.24	3479.66	3.82	1.78	18.37	151.01	1731.88
77 Other Financial(20)	2799.18	+0.5	2785.02	2787.37	2775.23	2420.53	3.98	1.77	17.75	102.81	1631.90
79 Property(42)	1714.79	-0.4	1721.04	1719.21	1716.82	1403.18	3.75	1.29	25.81	56.50	1078.38
80 INVESTMENT TRUSTS(126)	3189.87	+0.6	3170.83	3164.01	3159.53	3000.74	2.24	1.13	49.62	68.70	1127.44
89 FTSE All-Share(895)	1983.73	+0.2	1980.09	1986.29	1976.89	1779.24	3.80	1.90	17.29	78.43	1717.37
FTSE Fledgling	1220.86	+0.1	1219.42	1220.17	1221.16	1104.62	2.85	0.67	65.28	33.22	1298.26
FTSE Fledgling ex IT	1233.94	+0.1	1233.12	1234.69	1236.34	1107.54	3.05	0.59	69.35	36.14	1311.99

■ Hourly movements

	Open	9.00	10.00	11.00	12.00	13.00	14.00	15.00	16.10	High/day	Low/day
FTSE 100	4044.1	4052.5	4068.2	4066.5	4075.1	4070.9	4066.3	4061.3	4051.6	4076.0	4043.8
FTSE 250	4419.7	4421.3	4428.1	4427.1	4430.5	4432.0	4434.6	4434.4	4436.2	4437.4	4419.4
FTSE 350	2007.9	2011.3	2017.3	2017.4	2021.0	2019.6	2019.0	2016.0	2012.4	2021.3	2007.8

Time of FTSE 100 Day's high: 11:30 AM Day's low: 8:01 AM. FTSE 100 1996 High: 4078.1 (21/10/96) Low: 3632.3 (16/07/96).

■ FTSE 350 Industry baskets

	Open	9.00	10.00	11.00	12.00	13.00	14.00	15.00	16.10	Close	Previous	Change
Bldg & Cnstrcn	1121.3	1121.3	1121.9	1121.8	1121.6	1121.6	1123.3	1123.5	1123.6	1123.8	1121.9	+1.9
Pharmaceuticls	5684.3	5694.6	5724.4	5730.9	5734.8	5718.0	5687.3	5687.2	5678.0	5678.7	5703.6	-24.9
Water	2269.5	2270.0	2284.0	2283.6	2285.1	2285.8	2287.8	2288.4	2295.5	2301.9	2268.9	+33.0
Banks, Retail	5015.6	5030.4	5032.7	5034.7	5053.3	5049.8	5041.7	5038.8	5029.0	5030.6	5023.1	+7.5

For further information on the FTSE Actuaries Share Indices please contact FTSE International on 0171 448 1810. The FTSE Actuaries Share Indices are calculated in accordance with a standard set of ground rules established by FTSE International in conjunction with the Faculty of Actuaries and the Institute of Actuaries. "FT-SE" and "Footsie" are trade marks of the London Stock Exchange and The Financial Times and are used by FTSE International under licence. † Sector P/E ratios greater than 80 and net covers greater than 30 are not shown. ‡ Values are negative.

FTSE INTERNATIONAL

TRADING VOLUME

■ Major Stocks Yesterday

	Vol. 000s	Closing price	Day's change
[illegible]			

Based on trading volume for a selection of major securities dealt through the SEAQ system yesterday until 4.30pm. † Indicates an FTSE 100 index constituent. All trades are rounded. Source: Extel, part of FT Information.

هكذا من الأصل

Highs & Lows shown on a 52 week basis

WORLD STOCK MARKETS

EUROPE

AUSTRIA (Dec 5 / Sch)

[illegible]

BELGIUM/LUXEMBOURG (Dec 5 / Frs.)

[illegible]

CZECH REP (Dec 5 / Koruna)

[illegible]

DENMARK (Dec 5 / Kr)

[illegible]

FINLAND (Dec 5 / Mka)

[illegible]

FRANCE (Dec 5 / Frs.)

[illegible]

GERMANY (Dec 5 / Dm.)

[illegible]

GREECE (Dec 5 / Drachma)

[illegible]

ITALY (Dec 5 / Lira)

[illegible]

NETHERLANDS (Dec 5 / Fls.)

[illegible]

NORWAY (Dec 5 / Kroner)

[illegible]

POLAND (Dec 5 / Zloty)

[illegible]

PORTUGAL (Dec 5 / Escudo)

[illegible]

SPAIN (Dec 5 / Pta.)

[illegible]

SWEDEN (Dec 5 / Kronor)

[illegible]

SWITZERLAND (Dec 5 / Frs.)

[illegible]

TURKEY (Dec 5 / Tk Lira)

[illegible]

PACIFIC

JAPAN (Dec 5 / Yen)

[illegible]

HONG KONG (Dec 5 / H.K.$)

[illegible]

INDONESIA (Dec 5 / Rupiah)

[illegible]

MALAYSIA (Dec 5 / MYR)

[illegible]

NEW ZEALAND (Dec 5 / NZ $)

[illegible]

SINGAPORE (Dec 5 / S$)

[illegible]

AUSTRALIA (Dec 5 / Aust$)

[illegible]

SOUTH KOREA (Dec 5 / Won)

	+/-	High	Low	Yld	P/E
HyEngC 20,800	-800	41,355	20,600	0.2	—
KorEP 26,000	-400	31,900	23,400	1.9	—
KFstBk 4,400	-100	6,300	4,320	6.8	—
KMTele 423,500	-11,500	[illegible]	[illegible]	0.3	—
LG Ele 11,800	-800	27,000	21,600	2.8	—
PohgSt 39,500	-300	[illegible]	38,100	2.4	—
SamEle 58,000	-1,100	[illegible]	54,000	1.7	—
SamgHI [illegible]	[illegible]	[illegible]	[illegible]	5.0	—
Yukong 17,900	-800	26,[illegible]	17,020	3.4	—

TAIWAN (Dec 5 / TW $)

	+/-	High	Low	Yld	P/E
CL Ins 180	+3	182	97.50	0.8	—
CH Bnk 155	+1	163	93	0.8	—
ChiDev 88.50	—	91	68.50	1.7	—
ChiStl 26.50	-.50	31.60	18	5.5	—
FrstBk 168	+1	172	94	0.8	—
NYPlas 68	-1	72	34	1.7	—
SHK U 107	+1	127	67	1.4	—
TatSod 57.50	-.50	67	49.10	—	—

THAILAND (Dec 4 / Baht)

	+/-	High	Low	Yld	P/E
Advinf 278	—	510	202	2.2	—
BgkBnk 278	—	380	254	1.1	—
BgkLnd 29.75	—	45	22	0.8	—
[illegible] 73	—	199	62.50	19.9	—
FinOne 62	—	177	55	4.8	—
KrThBk 67.50	—	147	68.50	2.3	—
LndHse 178	—	512	175	2.8	—
PttExpl 90	—	368	90	3.9	—
SiamCm 852	—	1,624	828	1.2	—
SiamCl 145	—	424	139	5.5	—
SiamCB 199	—	430	198	4.5	—
TeleAs 53	—	83	47	—	—
ThaiFm 195	—	324	190	2.8	—

AFRICA

SOUTH AFRICA (Dec 5 / Rand)

[illegible]

NORTH AMERICA

CANADA

TORONTO (Dec 5 / Can $)

4 pm close

[illegible]

MONTREAL (Dec 5 / Can $)

4 pm close

[illegible]

Prices supplied by Telekurs

NOTES – Prices on this page are as quoted on the individual exchanges and are mostly last traded prices. * Calendar year high and low. # Dealings suspended. xd Ex dividend. xc Ex scrip issue. xr Ex rights. xa Ex all. † Priced in US $.

INDICES

	Dec 5	Dec 4	Dec 3	1996 High		1996 Low	
Argentina							
General(29/12/77)	(u)	17940.57	18180.22	[illegible]	29/5	[illegible]	22/8
Australia							
All Ordinaries(1/1/80)	2383.3	2370.7	2380.1	2394.70	25/11	2088.10	17/7
All Mining(1/1/80)	936.1	928.4	935.5	1118.40	8/5	921.30	12/11
Austria							
Credit Aktien(30/12/84)	385.53	383.36	384.05	394.98	31/5	349.19	6/3
Traded Index(2/1/91)	1130.96	1132.57	1129.93	1142.51	28/5	976.27	2/1
Belgium							
BEL20(1/1/91)	1901.12	1894.25	1898.65	[illegible]	3/12	1574.90	2/1
Brazil							
Bovespa(29/12/83)	(u)	67978.0	68369.0	[illegible]	3/12	43891.00	2/1
Canada							
Metals Mnls♦(1975)	(c)	5406.91	5432.83	5824.80	8/5	4687.47	16/1
Composite♦(1975)	(c)	5810.65	5840.73	[illegible]	28/11	4738.70	15/1
Portfolio§§(4/1/83)	(c)	2949.09	2965.92	[illegible]	28/11	2327.39	12/1
Chile							
IGPA Gen♥(31/12/80)	(u)	5035.78	5031.71	5804.35	8/1	5031.71	3/12
Denmark							
CopenhagenSE(3/1/83)	461.45	460.14	462.30	462.30	3/12	388.40	2/1
Finland							
HEX General(28/12/90)	2471.14	2458.16	2452.22	2471.14	5/12	1851.67	10/1
France							
SBF 250(31/12/90)	1541.48	1549.88	1570.25	1570.25	3/12	1280.18	2/1
CAC 40(31/12/87)	2292.50	2308.65	2348.11	2348.11	3/12	1887.88	11/1
Germany							
FAZ Aktien(31/12/58)	1006.18	991.87	999.04	1006.18	5/12	818.55	2/1
Commerzbank(1/12/53)	2936.5	2895.5	2919.5	2936.50	5/12	2370.30	2/1
DAX‡(30/12/87)	2908.91	2866.07	2886.96	2908.91	5/12	2284.86	2/1
Greece							
Athens SE(31/12/80)	911.89	918.69	916.71	1017.86	4/3	822.98	7/8
Hong Kong							
Hang Seng(31/7/64)	13481.56	13434.24	13456.26	13530.95	27/11	10204.87	2/1
India							
BSE Sens.(1979)	2812.22	2745.08	2798.09	4069.38	18/6	2745.08	4/12
Indonesia							
Jakarta Comp.(10/8/82)	634.29	626.26	620.80	634.29	5/12	512.48	2/1
Ireland							
ISEQ Overall(4/1/88)	2694.52	2673.41	2685.86	2705.84	4/10	2234.81	2/1
Italy							
Banca Comm Ital(1972)	660.77	657.06	660.80	674.10	20/5	572.21	27/3
MIB General(2/1/95)	1121.0	1114.0	1121.9	1142.00	20/5	978.00	27/3
Japan							
Nikkei 225(16/5/49)	20943.90	20658.91	20630.56	22666.80	26/6	19734.70	13/3
Nikkei 300(1/10/82)	293.92	290.59	290.14	318.70	26/6	284.48	11/3
Topix(4/1/68)	1551.76	1538.35	1535.64	1722.13	26/6	1524.12	13/3
2nd Section(4/1/68)	1930.09	1931.42	1941.11	2251.48	2/7	1930.09	5/12
Malaysia							
KLSE Comp.(4/4/86)	1224.94	1223.78	1218.07	1234.73	28/11	983.38	2/1
Mexico							
IPC(Nov 1978)	(u)	3350.48	3366.44	3433.75	27/8	2736.28	8/3
Netherland							
CBS TtlRtnGen(End 83)	720.2	722.0	730.2	738.20	3/12	539.50	2/1
CBS All Shr(End 83)	422.7	423.8	428.5	428.60	3/12	326.70	2/1
New Zealand							
Cap. 40(1/7/86)	[illegible]	2391.26	2376.91	[illegible]	5/12	2025.14	7/8
Norway							
Oslo SE(nd)(2/1/83)	[illegible]	[illegible]	[illegible]	[illegible]	3/12	1259.88	30/1
Philippines							
Manila Comp(2/1/85)	3163.33	3136.87	3101.36	3374.46	5/7	2578.87	2/1
Portugal							
BVL 30(4/1/93)	2104.12	2089.73†	2088.71	2104.12	5/12	1802.81	2/1
Singapore							
SES All-S'pore(2/4/75)	540.77	539.78	535.56	610.37	5/2	503.78	21/10
South Africa							
JSE Gold(28/9/78)	1510.7♥	1516.5	1492.4	2030.40	29/5	1346.40	2/1
JSE Ind.(28/9/78)	7977.1♥	7989.6	7981.7	8738.30	25/1	7582.40	21/8
South Korea							
KoreaCmpEx**(4/1/80)	708.30	715.87	725.59	986.84	7/5	708.30	5/12
Spain							
Madrid SE(30/12/85)	408.19	408.88	411.42	411.42	3/12	323.75	11/1
Sweden							
AffarsvaldsGen(1/2/37)	2364.2	2334.9	2350.4	2364.20	5/12	1706.60	22/1
Switzerland							
Swiss Bk Ind(31/12/58)	1865.49	1851.63	1856.16	1865.15	3/12	1516.19	17/1
SBC General(1/4/87)	1313.23	1311.98	1315.83	1315.83	3/12	1114.47	26/1
Taiwan							
WeightedPr**(30/6/66)	6919.49	6943.64	6936.39	6982.81	2/12	4690.22	6/2
Thailand							
Bangkok SET(30/4/75)	(c)	898.32	905.81	1415.04	6/2	898.32	4/12
Turkey							
Istanbul Comp.(Jan 1986)	93923.0	91892.6	92797.7	93923.00	5/12	38779.30	2/1
WORLD							
MS Capital Intl(1/1/70)	(c)	821.7*	824.4	837.20	25/11	726.90	13/1
CROSS-BORDER							
Eurotrack 100(26/10/90)	1883.77	1880.88	1889.49	1889.49	3/12	1504.40	11/1
Euro Top-100(26/6/90)	1579.87	1578.41	1583.23	1583.23	3/12	[illegible]	11/1
HSBC JC Dgn(31/12/89)	(c)	417.38	417.01	429.29	27/11	344.19	2/1
ING Bngs Emg(7/1/92)	(c)	160.21	159.25	166.91	4/7	147.35	2/1

INDEX FUTURES

	Open	Sett Price	Change	High	Low	Est. vol.	Open Int.
CAC-40 (200 x Index)							
Dec	2312.0	2298.0	-15.0	2324.5	2288.0	14,684	30,519
Jan	2318.0	2299.5	-15.5	2325.0	2301.0	33	2,364
DAX							
Dec	2886.0	2894.5	+9.5	2919.5	2884.5	29,135	–
Mar	2906.0	2915.0	+10.5	2940.0	2907.0	2,780	–
OMX							
Dec	1837.00	1842.00	+12.50	1858.00	1826.00	5,792	21,453
Jan	1860.00	1850.00	+9.75	1860.00	1836.00	767	8,374
SOFFEX							
Dec	3921.5	3923.9	+8.9	3939.5	3910.0	4,078	22,572
Jan	3921.0	3930.0	-7.0	3924.0	3918.0	47	2,055

** Sat Nov 30: Taiwan Weighted Price 6920.06; Korea Comp Ex 726.48. Base values of all indices are 100 except: Australia All Ordinary and Mining – 500; Austria Traded, BEL20, HEX Gen., MIB Gen., BVL30, SBF250, CAC40, Euro Top-100, ISEQ Overall, Toronto Comp./Metals & Minerals and DAX – all 1,000; JSE Gold – 255.7; JSE 20 Industrials – 264.3; NYSE All Common – 50 and Standard and Poor's – 10. §§ Montreal. ♦ Toronto. (c) Closed. (u) Unavailable. ‡ IBIS/DAX after-hours index: Dec 5 - 2894.43 -13.84

US INDICES

Dow Jones	Dec 4	Dec 3	Dec 2	1996 High	1996 Low	Since compilation High	Since compilation Low
Industrials	6422.94	6442.69	6521.70	6547.79 (25/11)	5032.94 (10/1)	6547.79 (25/11/96)	41.22 (8/7/32)
Home Bonds	103.74	103.86	103.92	106.09 (14/2)	100.99 (15/7)	109.77 (18/10/93)	54.99 (1/10/81)
Transport	2308.38	2300.06	2280.89	2308.38 (4/12)	1882.71 (18/1)	2308.38 (4/12/96)	13.23 (8/7/32)
Utilities	233.51	233.23	234.77	238.12 (25/11)	204.86 (30/7)	256.46 (31/8/93)	16.53 (8/7/32)

DJ Ind. Day's high 6482.20 (6577.23) Low 6339.46 (6422.94) (Theoretical¶)
Day's high 6443.07 (6554.50) Low 6368.18 (6438.22) (Actual¶)

Standard and Poors	Dec 4	Dec 3	Dec 2	1996 High	1996 Low	Since compilation High	Since compilation Low
Composite‡	745.10	748.28	756.56	757.03 (25/11)	598.48 (10/1)	757.03 (25/11/96)	4.40 (1/6/32)
Industrials♥	875.16	878.28	887.49	887.49 (2/12)	702.07 (15/1)	887.49 (2/12/96)	3.52 (30/6/32)
Financial	82.00	82.86	84.23	84.93 (29/11)	58.57 (10/1)	84.93 (29/11/96)	7.13 (4/8/74)
NYSE Comp.	393.23	394.85	398.14	398.88 (25/11)	321.41 (10/1)	398.88 (25/11/96)	4.64 (25/4/42)
Amex Mkt Val	588.99	592.18	592.93	614.99 (22/5)	525.60 (16/7)	614.99 (22/5/96)	29.13 (9/12/74)
NASDAQ Cmp	1287.02	1300.37	1298.82	1300.37 (3/12)	988.57 (15/1)	1300.37 (3/12/96)	54.87 (3/10/74)

RATIOS

	Nov 29	Nov 22	Nov 15	Year ago
Dow Jones Ind. Div. Yield	2.01	2.02	2.06	2.30
	Dec 4	Nov 27	Nov 20	Year ago
S & P Ind. Div. yield	1.83	1.81	1.84	1.95
S & P Ind. P/E ratio	23.05	23.30	22.99	18.98

NEW YORK ACTIVE STOCKS

Wednesday	Stocks traded	Close price	Change on day
Micron Tech	6,952,000	35⅝	+1⅛
Gen Elec	6,033,800	98⅞	-⅜
Amer Online	5,486,800	39⅛	+2⅜
Contl Air	5,153,600	30⅝	+2¼
Pepsico	4,887,800	29⅝	+⅛
A T & T	4,839,200	38½	——
IBM	4,435,900	162⅛	-1
Coca Cola	4,148,900	48½	-⅛
Hewlett-Pkd	3,885,600	56⅝	+1⅛
Pfizer	3,753,100	84	-1⅜

TRADING ACTIVITY

● Volume (million)	Dec 4	Dec 3	Dec 2
New York SE	498.446	519.946	415.665
Amex	26.033	24.631	24.182
NASDAQ	642.288	697.658	526.908
NYSE			
Issues Traded	3,277	3,325	3,313
Rises	1,040	1,304	1,279
Falls	1,428	1,195	1,207
Unchanged	809	826	827
New Highs	135	288	184
New Lows	31	28	28

	Open	Latest	Change	High	Low	Est. vol.	Open int.
S&P 500							
Dec	747.55	746.90	-0.75	748.60	745.05	106,330	172,722
Mar	752.80	754.00	-1.00	754.00	752.70	13,763	48,798

	Open	Sett price	Change	High	Low	Est. vol.	Open int.
Nikkei 225							
Dec	20700.0	20940.0	+290.0	20940.0	20690.0	25,884	178,759
Mar	20820.0	20990.0	+260.0	20990.0	20710.0	17,570	145,557

Open interest figures for previous day.

† Correction. * Calculated at 15.00 GMT. ● Excluding bonds. ‡ Industrial, plus Utilities, Financial and Transportation. ¶ The DJ Ind. index theoretical day's highs and lows are the averages of the highest and lowest prices reached during the day by each stock; whereas the actual day's highs and lows (supplied by Telekurs) represent the highest and lowest values that the index has reached during the day. (The figures in brackets are previous day's). ♥ Subject to official recalculation.

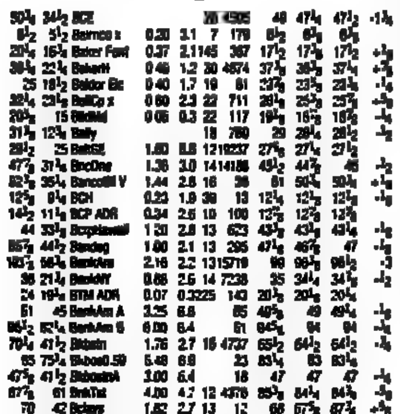
TOKYO - MOST ACTIVE STOCKS: Thursday, December 5, 1996

	Stocks Traded	Closing Prices	Change on day
Ricoh Co	11.4m	1310	+90
Toyota Motor	7.3m	3230	+170
Mitsubishi Hvy	6.7m	944	+30
NKK Corp	5.9m	279	-1
NEC Corp	5.3m	1380	+20
Honda Motor	4.8m	3360	+140
Daido Stl Sheet	4.8m	1570	+120
Hitachi	4.8m	1080	+10
Nippon Steel Cp	4.2m	346	+10
Fujitsu	3.5m	1080	+20

4 pm close December 5

NEW YORK STOCK EXCHANGE PRICES

1996 High	Low	Stock	Div	Yld. %	P/E	Sls 100s	High	Low	Close Quote	Chg'e Prev. Close
31¼	17¾	AAR	0.48	1.6	26	372	29⅞	28⅞	29⅛	-⅛
46⅛	33	AMP	1.00	2.6	19	6996	38½	38¼	38½	+½
97½	66	AMR			18	4667	92¾	91½	92	
50½	36⅞	ASA	1.40	3.7	25	1531	38¼	37⅛	38⅛	+¾
57⅞	36⅛	AbbotL	0.96	1.8	22	9614	53⅞	52¾	52⅞	-⅞
17¼	12¼	Abitibi Pr x	0.40	2.7	7	151	14¾	14½	14⅝	
20¼	13½	ABM Ind	0.35	2.1	17	36	17	16⅞	17	+⅛
22½	13⅞	Acpincala			10	355	20⅝	20¼	20¼	-¼
60	37¾	ACE Ltd	0.56	1.0	14	1334	59¼	58½	58½	-1
10⅞	9⅛	ACM Gvt In	0.86	8.5	8	217	10¼	10⅛	10⅛	-⅛
7⅞	6⅝	ACM GvOpp x	0.57	7.7		100	7⅜	7¼	7⅜	+⅛
9⅞	8⅞	ACM Man x	0.90	9.4		114	9¾	9⅝	9⅝	-⅛
13⅞	6⅛	Acme Elect	0.32	4.4	55	65	7¼	7	7¼	+¼
21⅝	13⅞	Acme Mills			15	233	21½	20⅝	20⅝	-⅞
33¾	27¾	Acordia x	0.80	2.7	15	9	29⅞	29⅜	29¾	+¼
24¾	12	Acuson			110	764	23⅜	22¾	23⅛	-¼
21⅛	17⅞	Adams Expr x	0.55	2.8	1	426	19¾	19⅝	19⅝	-⅛
25¾	10¼	AdvMic			24	29061	24¼	22⅞	23⅝	-⅞
11⅛	8½	Advest Grp	0.16	1.6	7	23	10¼	10¼	10¼	-⅛
26⅛	9⅛	Advo Inc	0.10	0.8	94	238	12⅜	12¼	12¼	-⅛
56⅝	41⅛	Aegon	1.45	2.6	17	100	56¼	55⅞	56¼	+¾
6¾	3½	Aeroflex			3	185	4¾	4½	4⅝	
74⅛	57⅞	Aetna	0.80	1.1	9	10526	u74⅞	72⅜	74	+1¾
44	28¼	Aflac	0.40	1.0	17	1312	41¾	40½	41¾	+⅞
22	17⅛	AGL Res			15	594	21¾	21½	21⅝	-⅛
33⅞	21¼	Ahmanson	0.88	2.8	56	4717	32	31⅜	31¾	+¼
70	50⅜	AirPrC	1.10	1.6	18	5751	69¾	68⅝	68¾	+½
28⅜	19½	Airborne Frt	0.30	1.4	16	719	22⅛	21⅞	22	-⅛



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NYSE PRICES

4 pm close December 5

1996 High	Low	Stock	Div	Yld. %	P/ E	Sls 100s	High	Low	Close Quote	Chng Prev. Close
Continued from previous page										
73½	50½	SchrPl	1.32	2.0	21	12017	66⅞	65¼	65⅝	-2¼
108¼	85⅞	Schwab	1.50	1.4	33	4254	105⅝	103¾	104⅞	+2
14½	8⅛	Scitir	0.12	1.2	5	304	10	9⅞	9⅞	+⅛
32¼	18⅝	Schwgh(C)	0.18	0.6	24	2553	29¾	29	29⅝	+⅝
33⅝	22¾	SchwMaud	0.60	1.9	16	244	32¾	32⅜	32⅝	-½
20⅛	12	SciAtl x	0.06	0.4	71	1616	15⅞	15½	15⅝	-⅛
24¾	17	Scotsman	0.10	0.4	12	14	24¼	24	24	+⅛
18⅛	12⅞	ScudderNAsF	0.02	0.2		600	13¾	13	13	
14⅞	11	ScudderNEuF	0.16	1.1		148	14¼	14	14⅛	
20¼	14¾	SeaCnA	0.77	5.0	22	192	15¼	15⅛	15¼	+⅛
16	15	SeaC1 4625	1.48	9.4		20	15½	15½	15½	
42¾	18	S'gate				4013284	41¼	40	41⅛	+⅞
41¼	30⅞	Seagrm	0.61	1.6	27	2490	40⅝	39⅝	39⅞	-⅞
35	17⅛	Seagull En	1.20	5.1	55	1982	24	22⅞	23½	+⅞
44⅛	26	Sealed Air	0.64	1.5	26	135	41¾	41⅛	41⅝	+¾
53⅞	38¼	SearsR x	0.92	1.9	18	14227	49⅞	48¾	49	-⅞
20¾	17	SeCpSBI	1.24	6.0	14	334	20⅝	20⅜	20⅝	-⅛
13	11⅞	Seligm Sel	0.84	6.7		59	12⅜	12⅝	12⅝	-⅛
23¾	13⅝	Sensormat	0.22	1.1	12	867	19⅝	19⅜	19⅝	-½
46½	29½	SequaA	0.60	1.5	42	90	41	40⅝	40⅝	-⅝
53⅝	39	SequaB	0.50	1.0	53	z100	50¾	50¾	50¾	
31¾	19½	ServCp	0.24	0.9	26	7363	27⅞	27⅛	27⅝	-⅝
26⅝	19½	SvMstr	0.68	2.8	15	606	24⅝	24⅜	24½	-⅛

- X-Y-Z -

1996 High	Low	Stock	Div	Yld. %	P/ E	Sls 100s	High	Low	Close Quote	Chng Prev. Close
47⅝	39¾	Xtra Corp x	0.72	1.6	18	144	45⅝	44⅞	45⅛	+1½
25¾	20⅝	Yankee Egy	1.30	6.0	10	292	22	21⅝	21¾	-⅛
55⅝	40⅞	York Int	0.36	0.7	23	718	51⅞	51¼	51¼	-⅝
4	3	Zapata	0.14	3.9	10	65	3⅝	3⅝	3⅝	
25¾	6⅝	ZenithE			6	641	13½	13⅛	13¼	-⅛
29⅞	21¼	Zenith Nat	1.00	3.7	35	57	27½	27⅜	27⅜	
7¾	6⅝	Zenix Inc x	0.73	10.2		231	7¼	7⅛	7⅛	
22⅞	15⅛	Zero	0.12	0.6	16	7	19⅝	19⅝	19⅝	+⅛
29	18½	Zurn Ind	0.40	1.4	30	167	28⅝	27¾	27⅞	-⅞
11⅞	10½	Zweig Fund	1.06	9.6		225	11	10⅞	11	+⅛
9	8¼	Zweig Tot	0.84	10.0		401	8½	8⅜	8⅜	

Price data supplied by Telekurs

Yearly highs and lows for NYSE reflect the period from Jan 1 1996. Unless otherwise noted, rates of dividend are annual disbursements based on the latest declaration. Sales figures are unofficial.

From yearly low. PE price-earnings ratio. Symbols: u-new yearly high. x-ex-dividend or ex-rights. yld-yield. z-sales in full.
‡ Dealings suspended.

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AMEX PRICES

4 pm close December 5

Stock	Div.	P/ E	Sls 100s	High	Low	Close	Chng
NY TmA x	0.57	56	1910	38¼	37¾	37⅞	

NASDAQ NATIONAL MARKET

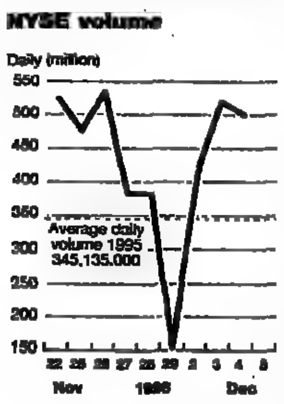
4 pm close December 5

Dow moves lower on bonds slide

AMERICAS

US equities were mixed as blue chips weakened along with the bond market, while a modest rebound in the technology sector lifted some shares, *writes Lisa Bransten in New York.*

At 1 pm, the Dow Jones Industrial Average was off 8.47 at 6,414.37 and the Standard & Poor's 500 slipped 1.51 at 743.59; while the American Stock Exchange composite lost 1.31 at 590.30. NYSE



volume was 281m shares.

Bond prices fell sharply in early afternoon trade as the dollar weakened and the Federal Reserve failed to conduct a much anticipated purchase of Treasuries. Also, there was some nervousness on the market that today's figures on November employment levels could point to growing wage pressures, or an increase in economic activity.

By early afternoon the long bond yield had jumped by 11 basis points since late on Wednesday to 6.5 per cent, making bonds an increasingly attractive alternative to shares.

Some technology shares, however, managed to post modest gains, helping the Nasdaq composite recover most of Wednesday's loss with a rise of 2.02 at 1,299.04.

The Pacific Stock Exchange technology index slipped by 0.1 per cent.

The top three Nasdaq issues were mixed. Microsoft added $1 at $154¼ and Cisco Systems $1 at $64¼, while Intel lost $1⅛ at $128⅝.

Class H shares in General Motors, which represent the company's Hughes division, added $3⅝ or 6 per cent at $56½ on reports that GM might be looking to sell the defence and aerospace businesses. General Motors shares were $½ stronger at $58⅞.

Chrysler gained $¾ at $35⅞ on news that its board had voted to double the size of its share buyback program to $2bn and to increase its annual dividend by 14 cents to $1.60 per share.

Continental Airlines gave up $1⅜ of the $2¾ it added on Wednesday amid mounting scepticism that the carrier would be purchased by Delta Air Lines. That brought the share price to $29¾; Delta, meanwhile, slipped $¼ at $75⅞.

Loctite added $⅞ at $60⅞ as it succumbed to a higher bid for the company from Germany's Henkel. Henkel, which had originally offered $57¾ for the company, increased its offer to $61 late on Wednesday.

TORONTO had another downside day in spite of strong results from the banking sector. At noon the 300 composite index was down 1 per cent, sliding by 59.06 to 5,851.59 in good two-way trading.

The bulk of the index subsectors lost ground with financial services racking up the heaviest losses to end the morning session off by 2.8 per cent.

Alcan Aluminium dipped 25 cents to C$46.55 and Canadian Pacific lost 45 cents to C$35.60. Barrick Gold, helped by a steadier day for the bullion price, gained 55 cents at C$39.85.

Sao Paulo 1.4% higher

Wall Street provided an early lead for **SAO PAULO**, which picked up 1.4 per cent at midsession, taking the Bovespa index 927 higher to 68,903.

Major state-owned blue chip companies gained ground. Telebras rose 0.5 per cent while Petrobras picked up 1 per cent.

Eletrobras preferred and ordinary issues were up 1.7 per cent and 2.3 per cent respectively. CVRD, the mining giant, gained 0.5 per cent as the shares rebounded from Wednesday's fall which followed news that the company's privatisation had been postponed from February 1997.

MEXICO CITY pulled back on profit-taking although some analysts forecast that the market would soon gather steam for another rally. The IPC index lost 17.60 to 3,372.88. GMexico, the mining group, subsided after speculation that the company would be awarded a rail privatisation concession.

BUENOS AIRES edged higher, lifted by a rise in the domestic bond market, and the Merval index was 0.96 ahead by midsession at 629.72.

Balanced trade in S Africa

Shares in Johannesburg ended little changed after a day of busy but evenly balanced trade.

The overall index was up 4.4 at 6,717.6 with industrial shares 8.5 higher at 7,977.1. The gold share index closed off 5.8 at 1,510.7.

The recovery among industrial shares was seen as impressive given the continued softness for the rand and a disappointing Producer Price Index.

Sasol was R1 better at R57.25 and First National Bank was up 60 cents at R23. The bullion price had an uneasy day and golds mostly moved lower. Vaal Reefs came off R5 to R324 and Kloof shed 45 cents to R36.30.

Rumours rife in pharmaceuticals industry

EUROPE

Rumours of cross border deals in the pharmaceuticals industry and further takeover speculation in Germany made for lively trade.

ZURICH heard more rumours about Roche, this time suggesting that a major investor had changed shares in the Swiss group for some in the Swedish drugs company, Astra.

Pharma Vision, the investment trust managed by Mr Martin Ebner's BK Vision, refused to comment on stories that it was the seller of Roche, in exchange for some of the 10 per cent of Astra held by Investor of Sweden.

Mr Philipp Buchli at Bank Sal Oppenheim in Zurich believed that Astra could be of interest to Roche. Rather than a full blown merger, however, he believed that co-operation was more likely in the form of an asset swap, joint venture or licensing agreement. The logic of an exchange of shares between Investor and Pharma Vision was that it would give both groups increased exposure to any upside potential in Roche and Astra.

Earlier rumours had linked Roche with SmithKline Beecham in the UK and, said Mr Buchli, a co-operation agreement between the Swiss and Swedish groups would not preclude further pacts between Roche and SmithKline.

Roche certificates added SFr30 to SFr10,160, while the bearers edged SFr15 higher to SFr15,600. According to its 1996 first half report, Pharma Vision, SFr4 ahead at SFr608, held 230,000 of the Roche bearers and 74,000 certificates. The SMI index made an enthusiastic start, peaking at a record intra-day high of 3,937.5 but subsequently pulled back to close 3.2 firmer at 3,913.8.

In **STOCKHOLM**, Astra rose to an intra-day record of SKr339 and closed SKr5.5 ahead at SKr284.5 and Investor, which declined comment on the rumours, was SKr5.5 ahead at SKr284.5. Meantime, the Affärsvärlden General index picked up 19.3 to close at an all-time high of 2,354.2.

The ripples spread over to **HELSINKI**, where Orion spurted to a high of FM163, before retreating to close unchanged at FM157.70 as the Investor story provoked renewed interest in all Nordic pharmaceuticals companies. The Hex index rose 11.98 to another all time high of 2,471.14, helped by a FM3 rise in Nokia to FM266.

In **FRANKFURT**, too, pharmaceuticals were in the spotlight. Following Wednesday's takeover rumours about Schering, disclaimed by the target, Schwarz Pharma jumped DM3.90 to DM113.90, as the chairman forecast sales growth of 6-8 per cent in 1997 and at least 5 per cent a year between 1998 and 2003.

Another takeover rumour eventually hit stony ground. Veba and Mannesmann both denied rumours that they were intending to merge their telecommunications operations. The latter, after peaking at DM692.20, ended Ibis trading only DM4.20 higher at DM673.

The broad market, too, moved from jubilation to a more sober conclusion, the Dax index reaching an all-time intra-day high at 2,916.18 before subsiding to 2,894.43, up 13.54.

Brokers liked the Bundesbank's decision to exempt repo agreements with maturities of up to one year from banks' minimum reserve requirements; the sector rose, Deutsche Bank gaining 85 pfg at DM73.50 and leading active stocks in DM1.1bn as German stock market turnover rebounded from DM9.8bn to DM12bn.

Carmakers were mixed. Daimler lost DM1.65 at DM102.55 and Porsche prefs climbed another DM63 or 5.3 per cent to DM1,250.

Mr Hans-Peter Wodniok at Crédit Lyonnais in Frankfurt said that the perceived dispute within Daimler's senior management about restructuring aims was weighing on sentiment, whereas an analysts' meeting at Porsche today might ascertain whether earnings forecasts produced by the company earlier this week were as modest as they looked.

PARIS gave up mid-day gains to end lower after heavy falls in oil and automotive stocks. At the close, the CAC 40 was off 16.15 at 2,292.50.

A downward shift of stance by Merrill Lynch threw cold water over French oil stocks. Elf Aquitaine came off FFr14 to FFr443 and Total shed FFr7.90 at FFr416.

Defence stocks had a quieter session with Lagardère down FFr1 at FFr146 and Alcatel Alsthom off FFr3 at FFr457. Thomson-CSF rose FFr1.50 to FFr162.

Michelin rose FFr1.40 to FFr277 on the news that it had disposed of part of its 6.1 per cent stake in Peugeot. The carmaker dipped FFr16 to FFr622 on the deal. Renault came off FFr1.40 to FFr117.30.

Bouygues, the construction leader, rebounded FFr15 to FFr575 after a recent period of relative weakness.

AMSTERDAM eased in spite of a bounce in KLM, which moved ahead strongly following news of a share buyback. The AEX index ended down 2.37 to 628.44.

KLM jumped almost 5 per cent on the news that the government was to buy back shares and boost the airline's earnings by 20 per cent in the process.

At the close, shares in the airline were Fl 2.10 higher at Fl 47.30 in active volume of 3.5m. Akzo Nobel also gained ground, adding Fl 2.60 to Fl 236.10 following broker upgrades.

The day's big loser was Elsevier. The publishing group's analysts' meeting was seen as disappointing and, amid talk of earnings downgrades, the shares came off Fl 1.40 to Fl 28.30.

Hoogovens continued to improve after Tuesday's upgrades and news of the alliance with UGB of Belgium. The shares added 50 cents to Fl 70.20.

LISBON hit a new high for the third day running with the PSI-20 index closing 28.72 higher at 5,005.39. A number of brokers have turned positive on Portugal in recent weeks, citing the resilience of the economy and EMU convergence factors.

Written and edited by William Cochrane, Michael Morgan and Jeffrey Brown

FTSE Actuaries Share Indices

THE EUROPEAN SERIES

Dec 5 Hourly changes	Open	10.30	11.00	12.00	13.00	14.00	15.00	Close
FTSE Eurotrack 100	1896.38	1900.77	1901.51	1902.44	1900.43	1896.75	1893.85	1893.77
FTSE Eurotrack 200	1929.89	1932.91	1931.09	1933.80	1931.91	1927.00	1927.05	1925.76

	Dec 4	Dec 3	Dec 2	Nov 29	Nov 28
FTSE Eurotrack 100	1900.88	1899.49	1877.55	1867.70	1850.81
FTSE Eurotrack 200	1925.28	1940.43	1923.78	1920.27	1907.35

Base value 1000 (26/10/90); Highday: 100 - 1902.82; 200 - 1934.67 Lowday: 100 - 1892.60 200 - 1924.85. † Partial.

Tokyo sharply higher as Seoul extends losses

ASIA PACIFIC

A surge of buying activity took **TOKYO** sharply higher, helped by a steep decline in the bond market which prompted arbitrageurs to build up long positions in cash stocks, *writes Gwen Robinson.*

Bonds weakened on fears of higher interest rates, following remarks by a former senior finance official suggesting that the Bank of Japan wanted to raise the official discount rate from its current record low of 0.5 per cent.

The Nikkei 225 average rose 283.99 to 20,943.90, after moving between 20,668.50 and 20,976.54. Big buying by securities houses, domestic institutions and foreign investors lifted selected blue chip electricals, carmakers and pharmaceuticals, underlining the recent polarisation between strong consumption-driven stocks and laggards such as banking and small-capital issues.

Volume swelled from 277m shares to an estimated 356m. Advances led declines by 739 to 342, with 170 unchanged, the broader Topix index of all first-section stocks jumped 15.40 to 1,551.76 and the capital-weighted Nikkei 300 climbed 3.33 to 293.92.

In London, the ISE/Nikkei 50 index lifted 3.19 to 1484.32.

Ricoh, the day's most active issue, climbed Y90 to a new high for the year of Y1,310 in volume of 11.3m shares. Toyota hit an all-time high of Y3,230, up Y170, while Honda advanced Y140 to Y3,360.

Pharmaceuticals continued to benefit from their recent healthy interim reports and projections of robust full-year earnings, gaining 3.1 per cent as a sector. Among the pharmaceutical issues to rewrite their 1996 highs, Sankyo added Y190 to Y3,310 and Takeda Chemical Industries Y120 to Y2,380.

Electricals and some high-technology stocks also advanced, with Sony up by Y70 to Y7,500 and Matsushita Electric Industrial by Y80 to Y1,980.

Banks, however, continued to languish on persistent concerns about their ability to solve the bad debt crisis. Industrial Bank of Japan fell Y30 to Y2,130 and Fuji Bank was down Y30 at Y1,910.

In Osaka, the OSE average climbed 236.03 to 21,132.97 in volume of 30.6m shares.

BOMBAY reversed the 5 per cent tumble of the previous three sessions, which took the market to a three year low, and the BSE-30 index rebounded 67.16 or 2.45 per cent at 2,812.22.

The recovery came on unconfirmed press reports that senior finance ministry officials were likely to meet the heads of major domestic financial institutions today to review the sluggish market conditions.

JAKARTA gained ground for the sixth day running to notch up a new high for the year. At the close, the composite index was 8.03 or 1.3 per cent higher at 634.3.

Sentiment gained from a cut in interest rates. The central bank sliced 50 basis points off its discount rate, and bank shares moved ahead sharply. Bank Negara Indonesia rose Rp100 to Rp1,375 on 71.4m shares traded.

SEOUL extended its losses to close at a 38-month low on fears of labour strife over the government's plan to revise labour laws. The composite index ended 9.57 lower at 706.30. On Wednesday, members of the outlawed Korean Confederation of Trade Unions, which claims members in a number of leading companies, voted overwhelmingly to strike to protest at the government's labour reform plan.

Daewoo shares edged down, but in line with the market, after the French government's suspension of the sale of Thomson SA.

DHAKA extended its losses to a fifth straight session as investor confidence continued to dwindle, in spite of assurances from the finance minister that the market would not crash.

The DSE all share index shed 51.9 or 1.9 per cent at 2,667.1, in turnover that slumped to Tk10.4m, the lowest since July.

HONG KONG featured a star performance by Hongkong Electric while fresh evidence of the strength of the property market also supported a broad advance. The Hang Seng index added 67.32 to 13,491.56.

A 45 cent rise in Hongkong Electric to HK$27.10, off a high of HK$27.75, was attributed to rotational buying.

Among mostly higher property stocks, Sun Hung Kai rose HK$1.25 to HK$98.

SINGAPORE finished higher, against expectations, after strong demand emerged for several key index components in the last few minutes of trading. The Straits Times Industrial index closed 19.81 higher at 2,214.17.

TAIPEI gave up early gains to end slightly lower after profit-taking in the final hour of trading. The index closed off 24.15 at 6,919.49. Nan Ya Plastics lost T$1 or 1.45 percent to T$68.

MANILA pushed ahead smartly following the release of November inflation and, in busy turnover, the main index rose 32.46 to 3,163.33.

November inflation came in at 4.5 per cent on an annualised basis, down from 4.7 per cent for October.

SYDNEY recovered strongly, underpinned by gold stocks which rebounded on the back of the better showing by the bullion price. The All Ordinaries index gained 12.6 to 2,383.3.

Golds were also boosted by takeover talk at Newcrest Mining which jumped 32 cents to A$4.92.

China's hard currency shares were mixed. **SHENZHEN**'s B index rose 4.5 per cent while its **SHANGHAI** counterpart gave up 1.4 per cent after this week's sharp gains.

FT/S&P ACTUARIES WORLD INDICES

The FT/S&P Actuaries World Indices are owned by FTSE International Limited, Goldman, Sachs & Co. and Standard & Poor's. The indices are compiled by FTSE International and Standard & Poor's in conjunction with the Faculty of Actuaries and the Institute of Actuaries. NatWest Securities Ltd. was a co-founder of the indices.

NATIONAL AND REGIONAL MARKETS Figures in parentheses show number of lines of stock	WEDNESDAY DECEMBER 4 1996 US Dollar Index	Day's Change %	Pound Sterling Index	Yen Index	DM Index	Local Currency Index	Local % chg on day	Gross Div. Yield	TUESDAY DECEMBER 3 1996 US Dollar Index	Pound Sterling Index	Yen Index	DM Index	Local Currency Index	DOLLAR INDEX 52 week High	52 week Low	Year ago (approx)
Australia (78)	218.55	-0.2	197.75	156.34	177.56	181.80	-0.4	4.19	218.93	196.47	157.39	178.29	182.52	224.61	185.70	188.51
Austria (24)	184.51	0.4	166.95	131.99	149.90	149.81	0.1	1.91	183.80	164.95	132.14	149.69	149.60	195.04	168.36	171.19
Belgium (27)	224.46	0.2	203.10	160.57	182.36	178.28	0.0	3.74	224.04	201.05	161.08	182.46	178.36	229.11	189.91	201.41
Brazil (26)	183.16	-0.5	165.72	131.02	148.80	348.43	-0.4	1.76	184.04	165.16	132.31	149.89	349.81	189.70	131.21	140.88
Canada (116)	191.93	-0.6	173.67	137.30	155.93	187.74	-0.7	1.92	193.49	173.64	139.10	157.58	188.98	198.24	144.35	147.92
Denmark (30)	333.94	-0.1	302.15	238.88	271.30	271.63	-0.3	1.70	334.29	300.00	240.32	272.25	272.58	340.41	281.10	284.74
Finland (24)	239.47	0.3	216.68	171.31	194.55	234.51	0.1	2.14	238.74	214.24	171.63	194.43	234.16	240.85	171.73	215.67
France (93)	209.90	-1.2	189.92	150.16	170.53	173.75	-1.5	2.81	212.49	190.69	152.76	173.06	176.47	212.49	167.70	167.70
Germany (59)	185.98	-0.5	168.28	133.04	151.10	151.10	-0.7	1.81	186.83	167.66	134.31	152.15	152.15	188.59	161.25	161.36
Hong Kong (59)	510.05	-0.2	461.50	364.87	414.38	506.40	-0.2	3.06	511.20	458.75	367.50	416.32	507.49	512.27	372.58	381.78
Indonesia (27)	226.50	2.0	204.94	162.03	184.01	326.01	2.0	1.59	222.02	199.24	159.61	180.81	319.63	-	-	-
Ireland (16)	313.01	-0.7	283.21	223.91	254.30	268.68	-0.1	3.40	315.08	282.76	226.52	256.61	269.00	321.14	250.17	253.72
Italy (58)	81.34	-0.5	73.60	58.19	66.08	93.32	-0.6	2.22	81.72	73.34	58.75	66.55	93.88	84.53	67.22	67.67
Japan (480)	137.91	0.6	124.78	98.65	112.04	98.65	0.1	0.78	137.06	123.02	98.55	111.64	98.55	164.68	137.06	150.53
Malaysia (107)	598.36	0.4	541.41	428.04	486.12	581.15	0.3	1.07	595.73	534.61	428.27	485.16	579.66	607.65	475.66	461.43
Mexico (27)	1228.30	0.0	1111.39	878.68	997.90	10559.00	-0.2	1.05	1228.02	1102.03	882.82	1000.10	10576.06	1325.65	936.49	1010.50
Netherland (19)	320.81	-0.9	290.27	229.49	260.63	256.65	-1.2	2.88	323.71	290.50	232.71	263.80	259.88	328.12	264.79	264.79
New Zealand (15)	94.40	1.7	85.42	67.53	76.70	70.30	0.9	3.92	92.79	83.27	66.71	75.57	69.68	94.40	75.94	78.28
Norway (35)	281.60	-0.8	254.80	201.45	228.79	249.13	-0.9	2.03	283.89	254.77	204.09	231.20	251.32	285.26	222.24	224.44
Philippines (22)	201.30	0.8	182.14	144.00	163.54	263.79	0.9	0.63	199.58	179.10	143.47	162.53	261.53	-	-	-
Singapore (43)	416.77	0.7	377.11	298.14	338.60	269.42	0.6	1.00	414.09	371.61	297.68	337.24	267.83	465.21	371.28	387.57
South Africa (44)	325.12	0.3	294.17	232.58	264.13	331.75	0.6	2.35	324.06	290.81	232.96	263.91	329.81	437.76	314.20	369.26
Spain (37)	198.50	-0.4	180.51	142.71	162.08	198.76	-0.7	3.02	200.37	179.82	144.05	163.19	200.09	200.37	157.91	158.86
Sweden (48)	412.03	-0.8	372.81	294.75	334.74	414.56	-0.9	2.06	415.23	372.63	298.51	338.17	418.50	416.67	294.10	316.57
Switzerland (37)	240.66	0.3	217.75	172.16	195.52	197.38	-0.4	1.50	240.01	215.39	172.54	195.47	198.16	254.94	219.29	229.65
Thailand (45)	108.87	-1.4	98.51	77.88	88.45	108.04	-1.4	3.18	110.44	99.11	79.39	89.94	109.56	183.96	108.87	162.88
United Kingdom (213)	266.33	-1.2	240.98	190.52	216.37	240.98	-0.4	3.96	269.52	241.87	193.76	219.49	241.87	273.93	222.43	226.27
USA (623)	303.34	-0.4	274.47	217.00	246.44	303.34	-0.4	1.98	304.70	273.44	219.05	248.14	304.70	307.82	243.34	250.96
Americas (794)	277.53	-0.5	251.12	198.54	225.48	233.36	-0.5	1.97	278.81	250.21	200.44	227.07	234.42	281.50	222.53	228.71
Europe (720)	230.45	-0.8	208.52	164.86	187.23	200.83	-0.7	2.86	232.24	208.41	166.96	189.14	202.16	234.56	194.31	195.58
Nordic (137)	351.80	-0.5	318.32	251.67	285.81	310.19	-0.7	2.01	353.67	317.39	254.26	288.03	312.38	355.21	261.13	262.10
Pacific Basin (876)	156.29	0.5	141.41	111.80	126.97	112.91	0.1	1.24	155.53	139.56	111.81	126.67	112.82	177.01	153.95	160.91
Euro-Pacific (1596)	187.08	-0.2	169.27	133.83	151.99	146.07	-0.3	2.08	187.39	168.17	134.71	152.61	146.51	191.51	175.04	175.24
North America (739)	296.89	-0.5	268.45	212.24	241.04	295.78	-0.5	1.98	298.07	267.48	214.28	242.75	297.12	301.15	237.55	244.80
Europe Ex. UK (507)	206.20	-0.5	186.58	147.51	167.53	176.05	-0.8	2.27	207.30	186.03	149.03	168.82	177.51	209.70	174.81	174.85
Pacific Ex. Japan (396)	314.95	0.1	284.97	225.30	255.87	271.15	0.0	2.75	314.82	282.54	226.19	256.23	271.19	317.82	257.81	260.35
World Ex. US (1811)	189.29	-0.2	171.28	135.41	153.79	151.44	-0.3	2.09	189.65	170.19	136.34	154.45	151.90	193.47	176.09	178.23
World Ex. UK (2221)	221.24	-0.2	200.18	158.27	179.74	190.40	-0.4	1.83	221.70	198.95	159.38	180.55	191.10	224.98	196.13	196.54
World Ex. Japan (1954)	270.97	-0.5	245.18	193.84	220.15	256.39	-0.5	2.33	272.57	244.42	195.81	221.82	257.82	274.88	224.52	226.50
The World Index (2434)	225.12	-0.3	203.69	161.04	182.90	195.07	-0.4	2.03	225.80	202.64	162.33	183.89	195.79	228.97	198.47	199.16

Latest prices were unavailable for this edition.

Adrian Furnham on the importance of developing telephone sales skills

A clear line to call-centre staff

It is not until comparatively recently that recruiters and selectors began systematically to look for telephone-based customer skills in their staff. When goods were ordered and complaints made by letter, the skills of drafting sensitive, firm and clear documents were obviously valued. But the widespread use of telephone sales has changed that – and customer expectations of how they should be dealt with.

People are becoming used to being able to telephone direct suppliers six or seven days a week almost around the clock, ordering anything from clothing to computer software. They have come to expect that they can generally do business over the telephone and may become angry if they discover they have to resort to the "snail mail".

Most homes have telephones, calls are cheap and market leaders in telesales have equipment that allows them to offer a first-class service directly to the customer. But companies that install the latest systems for handling telephone business can be seriously handicapped if they do not have properly trained sales staff.

In most cases, large companies *establish call centres* to handle telesales. Like all managers, those in charge of call centres try to keep costs to the minimum using technology such as telephone management systems, workflow systems, profit/service data systems for the employee, and database management software.

The human factor – the training and motivation of call-centre staff – remains neglected. Yet the person customers speak to is their main link with the company and on whom they will judge the price and quality of the service they receive.

Defining customer service on the telephone, face-to-face or even by letter is difficult to do. Services are intangible because they are about performance rather than product – they cannot be counted, measured or verified in advance of sale to ensure quality.

Yet the product and the service are often inseparable *because both are involved in* the contact between customer and service provider. The qualities that telephone sales staff must convey to customers include:

- Responsiveness – obvious willingness and readiness to provide a service.
- Competence – having comprehensive knowledge and skills to deliver the service.
- Access – the approachability and the general ease of contact with staff.
- Courtesy – explicit politeness, respect, consideration and friendliness.
- Communication – keeping the customers informed in a language they can understand, and listening to them.
- Understanding – making an effort to understand the customers' needs.
- Reliability – consisting of performance and dependability.

Reading the increasing number of advertisements in *newspapers for telephone* personnel, one could easily believe it is the best job in the world. It is fun, exciting, easy, done from near home, working in and with a supportive team, and the potential for making a good living is high.

Yet the data on call-centre personnel tell another story. Job turnover and absenteeism is high: companies are reluctant to disclose the figures, but turnover is as high as 25 per cent a year where staff have a realistic alternative job to go to.

Little attention has been paid to the recruitment, selection and training for this frankly unusual and specialised job. How can recruitment be done in line with business needs? What is the demographic and psychological profile of the ideal employee? What sort of training do call staff need initially and then later in the job? Are the incentives *appropriate to the personality types employed?*

In theory, the ideal member of staff in a call centre would be an extrovert, because they are more sociable, lively and interpersonally skilled than introverts. But extroverts also like variety, and sitting all day answering the phone is tedious. They trade off speed *for accuracy and while they* are likely to answer more calls, they are also more likely to take down wrong information.

> Job turnover and absenteeism is high: turnover is as high as 25 per cent a year where staff have a realistic alternative job to go to

Extroverts are certainly easy to motivate by promise of rewards – but if these rewards are difficult to achieve because of the number and type of callers, they can become dispirited. They can also be erratic, particularly if a little unstable – and the last thing the customer wants is an irascible, capricious telesales person who, having been rattled by the previous customer, takes it out on the next caller.

"Selection is the key," says Tony Miller, training director at Frizzell, the insurance broker, who has considerable experience in this area. "Applying a standard battery of tests will not give the results of high-performing individuals.

Miller is responsible for the effectiveness of training and development of more *than 700 call-centre staff,* and has been involved with high results training for more than eight years. He uses various psychological techniques to improve performance.

"Often there is a misunderstanding of some of the basic requirements – whether to select the compliant introvert or the perceived difficult-to-manage extrovert.

"Decisions are often made to suit the manager's style. Conventional training methods are not effective for creating high-performance personnel."

Choosing the managers with the skills to get the best out of such staff is equally difficult. They must be able to create, maintain and manage a high-performing team over the long term.

Technology is available to everyone; management and skills are not. It is the one area where real added value and higher return on investment can be made.

Assessment centres, psychometric testing and biodata analyses are all expensive ways of selection, but each has been shown to improve decisions – both in selecting the able and reject*ing the inappropriate. Given* the difficulty and importance of managing telesales staff, it is probably worth the investment.

Call centres are unusual places to work. The open plan office with dim light and hundreds of people speaking at once is not everyone's idea of a pleasant working environment. Staff can get, quite understandably, pretty rattled and snappy after dealing with dim, demanding, rude, inarticulate or naive callers.

But they need to be recruited and retained in larger numbers. Recruiting the wrong types and giving little or inadequate training is likely to lead to poor sales and disgruntled customers.

The author is professor of psychology at University College, London

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The Company — Novo Nordisk is a leading Danish multinational with world leading market shares in the Insulin and Industrial Enzyme businesses with group turnover of $ 2,5 billion in 1995, employing approx. 13.000 people worldwide. We seek to fill the position Finance Director for our European (incl. Middle East and Africa) Enzyme Business, based in the Paris area and reporting to the President Enzyme Business Operations Europe.

The Role — Monthly, annual and medium-term planning and reporting for the European group.
Responsible for ensuring sound financial control, in all reporting affiliates.
Responsible for managing small IT and accounting departments including relationships with various fiscal and social authorities.
Member of European Business Management Team.
Working closely with the European President on all financial aspects of the business.

The Qualifications — Ambitious and committed professional with technical expertise, business acumen and a hands-on approach.
Experience with a European or an American multinational and or working within a multicultural sales driven environment.
Fluent English + 2nd language (French or German) would be an advantage.
Familiarity with SAP R3 is desirable.
Internationally recognised accountancy qualifications or and MBA combined with good IT skills.

If you wish to apply for this challenging position please reply with full details to:
John A. Chambers, Human Resources Director Europe - Novo Nordisk Bioindustrie S.A.
79, avenue François Arago - 92017 Nanterre Cedex FRANCE.

Novo Nordisk

NAMUR

Credit Underwriters/Analysts

GERLING-NAMUR is a leading credit insurance underwriter with 40 offices in 12 European countries. We are looking to strengthen our UK underwriting team with two experienced trade credit underwriters/analysts, one at senior level.

Reporting to the UK Underwriting Manager, responsibilities will include the collection and analysis of commercial qualitative and quantitive information.

The ideal candidate should have a good academic background, preferably to degree level or equivalent professional qualification, and have the following:

- Minimum of 5 years' experience as an underwriter/analyst in credit insurance or in the banking/financial sector
- Excellent communication skills in English (French and/or German would be an asset)
- Willingness to take initiative and responsibility
- Commercially orientated

The basic salary package and benefits will be competitive and commensurate with experience.

Interested candidates should send their curriculum vitae to:

Simon Risebrow
Namur - Insurances of Credit,
8 Bedford Park,
Croydon CR0 2AP

International Herald Tribune

FINANCIAL BRAND DEVELOPMENT EXECUTIVE

This prestigious International Newspaper is implementing an on-going programme of expansion.

We are currently seeking a highly motivated sales professional to actively sell within the financial category. This will involve working closely with UK based advertising agencies and clients.

You will be well versed and connected within the UK financial advertising market with strong interpersonal and sales skills. Languages, although not a prerequisite, would be an advantage.

Based in London the position reports to the UK Advertisement Director.

Please apply in the first instance enclosing a CV to:
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International Herald Tribune,
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Candidates will be either senior banking professionals or already fulfilling a similar role in a capital goods exporter, contractor or project sponsor.

You will need strong personal presence, creativity, analytical ability and negotiating skills.

Please write in confidence, with a cv and remuneration details, to Criterion Search, 50 Regent Street, London W1R 6LP, quoting ref: 1022. Tel: 0171-470 7160. Fax: 0171-470 7114.

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Dun & Bradstreet is the world's leading supplier of business information; following its recent demerger, the new company has an annual turnover in excess of US $2 billion. The Economic Analysis Group is responsible for regularly assessing country risk across 120 different markets in which investors place funds and exporters trade. The Group now requires experienced analysts to produce its portfolio of country risk products.

Analysing countries and business sectors world-wide, you will contribute to D&B's flagship monthly journal, the International Risk and Payment Review (IRPR). You will also produce more in-depth analysis for individual country risk reports on a range of countries on a semi-annual basis, as well as participate in a number of ad hoc projects.

Ideally a post-graduate in Economics with a sound grasp of politics, you will have spent at least two years' in a financial/economic research or country analysis role, backed by experience writing for publications with an international perspective. With a proven ability to research, analyse and write clearly and concisely to tight deadlines, you will be an effective team player. A sound knowledge of the Middle East, Asia-Pacific and/or Latin America is preferable, and language ability would also be an advantage.

Please write with full CV and current salary details to: Amanda Cooke, Senior Human Resources Officer, Dun & Bradstreet Limited, Holmers Farm Way, High Wycombe, Bucks HP12 4UL.

CJA RECRUITMENT CONSULTANTS GROUP
2 London Wall Buildings, London Wall, London EC2M 5PP
Tel: 0171-588 3588 or 0171-588 3576
Fax No. 0171-256 8501

Opportunity to work alongside a highly regarded investment strategist and to manage funds in a group which offers excellent career prospects

UK FUND MANAGER

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Credit Suisse Investment Management has an outstanding reputation, with above average investment performance and rapid growth in funds under management. This new position is an unusual opportunity to join Dr. Bill Mott's team and contribute to the management of a group of their UK institutional funds and to the asset allocation process. The successful applicant will be exposed to CSIM's distinct investment style and philosophy, which combines a wide-ranging analytical approach to economic and market trends with detailed investigation of individual securities. We invite applications from candidates with 3-5 years' investment experience, who have completed a graduate traineeship, gained experience in investment research and progressed to some hands on experience of managing UK funds. Small companies experience will be an advantage. An excellent remuneration package will be negotiable and salary will not be a barrier to recruiting the right individual.

Applications in strict confidence under reference UKFM5920/FT to the Managing Director, CJA.

FUND MANAGEMENT

EMERGING MARKETS ECONOMIST

Attractive package **CENTRAL LONDON**

This is a superb opportunity to join the London-based fund management operation of a highly respected European investment bank. The company has earned a first class reputation for its expertise in international bond management and this is reflected in the strength of its institutional client base.

The company takes pride in its collegial, supportive and strongly team based culture and it is essential that this individual shares these values.

The Position

- Monitor and forecast a range of emerging economies focusing on fixed income and currency markets.
- Communicate research findings verbally and in writing to fund managers and to a wider audience both within and outside the bank.
- Create and develop a new research report in cooperation with the Director of Economic Research.
- Scope for research on own initiative into relevant topics of interest.

The Requirements

- Economist with at least 1-2 years' experience in the financial sector ideally in the emerging markets.
- Detailed knowledge of fixed income markets.
- Qualified to at least degree level in economics with a first-class analytical mind.
- Excellent oral and written communication skills with a high degree of computer literacy.
- The ability to work under pressure and to tight deadlines both independently as well as part of a team.

Please send your CV with current salary details to: Sara Kenderdine-Davies, K/F Selection, 252 Regent Street, London W1R 6HL, quoting ref: 3825/D. Alternatively send by fax on 0171 - 312 0020 or by e-mail to cv@kfselection.com Internet Home Page: httpwww.kfselection.com

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A DIVISION OF KORN/FERRY INTERNATIONAL

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Competitive salary + bonus and banking benefits

Our client is the banking entity within one of the World's major financial institutions. Based in London, our client provides a comprehensive and growing range of corporate and institutional financing and treasury services to major Corporate and Institutional Groups in Europe and Asia.

As part of the Bank's expansion they are offering a challenging opportunity for an experienced corporate banker to join their Banking team.

The position will involve researching and developing lending and treasury business with major corporates in the Far East, particularly in the ASEAN area, keeping abreast of developments in the region and assisting the bank in determining its strategy for this important region.

The position is ideally suited to an international banker with credit and/or lending experience in the Far East. Knowledge of an Oriental language would be an advantage.

It is likely that the successful candidate will be a graduate or possess an appropriate banking qualification.

The position will be at Manager or Senior Manager level depending on the experience of the candidate and will offer an excellent career opportunity at an exciting stage of the Bank's development.

Please write, in the first instance, with a full CV including salary details to:

Ben Wood, Vine Potterton Ltd, Suite 26, Ludgate House, 107-111 Fleet Street, London EC4A 2AB.

If there are any companies to whom you do not wish your application to be forwarded to, please list them in a covering letter.

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Our client, a recognised leader in providing comprehensive analysis and research in the area of commercial real estate, is expanding its operations to include European transactions. An opportunity exists for a real estate professional to join the London based structured finance team and lead this new initiative.

The Role

- Identifying and developing commercial real estate business in Europe.
- Providing collateral, legal and structured analysis of commercial real estate transactions.
- Marketing to issuers, investment banks, and investors.
- Developing cash flow models.

The Candidate

- Minimum of 3 years' lending or commercial real estate credit work.
- Fluent in English and French.
- Strong analytical and communication skills.
- Ability to work in a team environment.

If you feel ready to develop your career by accepting the challenge of this exciting opportunity, please send your curriculum vitae in confidence to **Deborah Dor, Senior Consultant** or telephone for an initial discussion.

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Email: exec@devonshire.Co.UK Internet: www.devonshire.co.uk
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International controller

Paris based, our client is a major Group of consulting companies and is currently involved in a successful international expansion

As part of the international management, you will be responsible for :

- putting in place effective but simple financial controls, including sensitive indicators permitting a reactive management and realistic forecasts
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- the relations with accounting and administrative department of the group

Your well-developed sense of relationship will be matched with at least 3 years experience in an auditing firm and/or in an international management services company.

This high profile role with extensive travels will bring you into regular contacts with 8 subsidiaries abroad.

English is your mother tongue and you have a very good command of French. Knowledge of German would be an advantage.

Please send or fax your CV in French, quoting reference number 103, to our advising consultant Elise Roques, ETHNOS, 11 boulevard Pershing 75017 Paris, France. Fax 33 1 44 09 10 80.

ETHNOS

MEDIAPA

Lloyds Bank International Private Banking

Portfolio Manager *Europe*

Geneva-based **Competitive Package**

Investment Management Services (IMS) is the central investment unit of Lloyds Bank International Private Banking, which has its headquarters in Geneva. The unit is responsible for managing and advising private client assets and 32 investment funds. We seek to hire an additional portfolio manager to cover markets in Europe.

For this position, candidates should be aged 30-40, university graduates in Economics or Business Administration, team players with minimum 5 years experience in fund management. English is our working language. Preference will be given to candidates with good track records in fund management and experience with UK equities.

Applications should be addressed to:

LLOYDS BANK Plc
N. J. Simpson. Personnel Department
Case Postale 5145
1211 Geneva 11
Switzerland

PEREGRINE

Asian Equity Derivatives marketing specialist based in London or Zurich required to build distribution of Asian equity derivatives products across Europe for leading Asian Investment Bank. The successful candidate must possess the following characteristics:

- In depth knowledge of Asian equity markets;
- experience in marketing equity derivatives products to both institutional clients and intermediaries with access to retail investors;
- ability to structure equity derivatives products to meet clients needs in OTC and securitised form;
- ability to work independently and tenaciously to build client relationships and to close transactions;
- ability to co-ordinate with the existing network of cash salespersons in marketing of commoditised equity derivatives products.

This role requires much more than pro-active sales of equity derivatives products. It requires the candidate over time to build a business to match the existing successful businesses established in Asia and the United States. This involves identifying new opportunities as well as extending and enhancing the already successful range of products and expertise established by the Asian office.

Remuneration based on fixed salary and performance related bonus.

Please send detailed curriculum vitae to: Jane Arrowsmith, Peregrine Securities (U.K.) Limited, 10 Aldersgate Street, London EC1A 4HJ

VENTURE CAPITAL

Far East

Ho Chi Minh City/Bangkok **US$ Ex-pat package**

Our client is the leading venture capital group in Indochina, currently managing and advising on some US$100m funds from offices in Hanoi, Ho Chi Minh City (Saigon) and Bangkok. Its primary role is to identify and make direct equity investments in greater Indochina, specifically Vietnam, Cambodia, Laos, Myanmar and Yunnan Province of China. A rare opportunity has arisen for two entrepreneurial young professionals to join the investment team. It will suit individuals with outgoing personalities, eager to participate in the growth of the private equity markets in emerging Indochina. Working in a small integrated team, the roles incorporate all aspects of the unlisted equity investment process from identification, analysis, negotiation, structuring and deal management, through investment monitoring and exit management.

Candidate Profile

- commercially aware Chartered Accountants or MBAs
- aged 25-32
- experience of corporate finance or venture capital transactions gained in a venture capital house, merchant bank, accountancy firm or a strategic management consultancy
- strong financial analysis, computer modelling and communications skills
- mature, gregarious, confident personality

Interviews will take place in London. Interested applicants should apply in confidence quoting reference CP/TC to:

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Candidates must have a University or MBA degree and must have worked overseas at senior level. Fluency in English and/or French required. Contract duration will be for 3 years. An attractive expatriate package and salary will be offered to the selected candidates. Candidates who are interested should send their CV to:
Frank Brouwers, Personnel Officer, AMSCO, Strawinskylaan 657, 1077 XX Amsterdam, The Netherlands. Fax 0031-20-6642959; e-mail: brouwers@amscobv.com.

Carnegie

Outstanding Opportunities in Nordic Equity Sales & Research

£Excellent + Bonus + Benefits

Carnegie is a leading Nordic investment banking and asset management group with strong positions in equity broking in Denmark, Finland, Norway and Sweden, both locally as well as cross-border through offices in London and New York, and is also one of the major bond brokers in Denmark. Carnegie is the leading independent corporate finance advisor in Sweden with growing activity in the other Nordic countries. The asset management and private banking business for selected institutions and private investors currently has SEK 16bn under management. Carnegie employs more than 400 professionals in 9 offices in 7 countries. Singer & Friedlander Group PLC owns 55% of Carnegie, while the remaining 45% is held by Carnegie employees.

After a build-up phase over the past two years involving substantial investment in IT and personnel, Carnegie's Nordic Research Department now comprises 40 financial analysts providing in-depth research of some 300 Nordic companies - from blue chips to small caps. Furthermore, in-depth industry research is provided through the sector teams set up to cover 12 major sectors, while a team of five economists offers global and domestic macroeconomic research.

As a consequence of the recent upgrading of our research as well as our London operations we are now looking to recruit the following sales and research professionals:

NORDIC EQUITY SALES - LONDON

We are seeking experienced equity sales people with good contacts to UK institutional clients as we will be increasing the marketing of our improved and upgraded research product. You should ideally have several years of experience in equity sales and exhibit an in-depth knowledge of Nordic equities and companies. You are a proven business winner with a relevant contact base among UK fund managers. You should have first-class communication skills and be able and willing to effectively work independently and in a team. Fluency or proficiency in any one of the Scandinavian languages is an advantage.

NORDIC ANALYSTS - LONDON

We are seeking Nordic analysts to work in London. You will be our dedicated analyst on a Nordic market, working closely with our local analysts and the cross-border sales people to identify, research and market original and exciting investment ideas to our international client base. You must be able to demonstrate in-depth analytical and high-quality report writing and verbal communication skills. You must be highly motivated and able to work independently and in a team. You are already working in a similar capacity in either London or Scandinavia and have the necessary experience as well as an appropriate educational background.

FINANCIAL RESEARCH MODELLING - SCANDINAVIA/LONDON

We are looking for a numerate professional combining in-depth IT knowledge with a strong equity research interest to work with financial modelling, information and decision support systems for our analysts. You can have either an IT or an equity research background, combining in-depth knowledge and extensive experience in one area with a keen interest and high ambitions in the other. You will, in close co-operation with our analysts and IT people, develop and support relevant decision & information support systems, databases, valuation and other financial models etc.

NORDIC RESEARCH EDITORS - LONDON

We are looking for editors to complement our current team of London-based Nordic research editors. You will be instrumental in helping the analysts communicate their investment ideas to investors with clarity and vision. As all our research is currently produced in English the job mostly involves editing, although you will sometimes have to do complete rewrites. Fluency or proficiency in any one of the Scandinavian languages is a distinct advantage as is journalistic or investment writing experience.

For a confidential discussion and further details on the above sales appointments, please contact Per Munk-Nielsen or Arve Nilsson, Co-Heads of the Nordic sales desk in London, on 0171 216 4082 or 216 4034 or apply with CV to Per Munk-Nielsen/Arve Nilsson, Carnegie, 24 Chiswell Street, London EC1Y 4UE.

For a confidential discussion and further details on the above research appointments please contact: Tommy Erixon, Group Head of Nordic Research, tel. 0171 216 4099 or +46 8-676 8699 or apply with CV to Tommy Erixon, Carnegie, 24 Chiswell Street, London EC1Y 4UE.

HSBC Investment Banking

Member HSBC Group

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The HSBC Group, with headquarters in London, is one of the world's largest banking and financial services organisations, with an international network of more than 3,300 offices. Unrivalled financial resources, global reach and contacts, ensure that the HSBC Group is ideally placed to develop further its pre-eminent position.

HSBC Investment Banking is responsible for the advice and financing, equity securities, asset management and private banking activities of the HSBC Group. The Corporate Finance and Advisory department encompasses corporate advisory, M&A and International ECM activities. We are now looking to recruit a number of outstanding specialists for our international transaction teams.

This is an exceptional opportunity for individuals to develop further their experience across a wide range of international transactions, including the origination, structuring and execution of mergers and acquisitions for quoted and unquoted companies, equity offerings and privatisations.

Successful candidates will be exposed to HSBC Investment Banking's growing international client base, working closely with its industry specialists and network of international offices in 40 countries worldwide.

Candidates of the highest quality are sought:

- Graduates with up to five years Corporate Advisory, M&A or ECM experience gained within a leading financial institution. Exposure to a high profile range of transactions conducted on an international basis is essential.
- Fluency in a European language, in addition to English, is a distinct advantage.
- An excellent academic background and keen intellect. Mature, tenacious and energetic.
- An additional qualification such as an MBA would be advantageous.
- Team players with initiative, creativity and flair together with a high level of motivation and commitment.

Please send a full cv to: Stephen Grant, Morgan McKinley Associates, Ruskin House, 40/41 Museum Street, London WC1A 1LT.
Tel: 0171 404 4100 Fax: 0171 404 4334.

Morgan McKinley Associates
Executive Recruitment

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The other role is for a foreign exchange trader who has experience of minor currencies, especially of Central and Eastern Europe.

Candidates should be educated to degree level and have three to five years' experience, preferably with some knowledge of German or an Eastern European language.

Business is being generated from the Euro-emerging markets and Latin America and is expected to develop substantially in the future.

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ABN·AMRO HOARE GOVETT

Riada

Riada Stockbrokers is the stockbroking arm of ABN AMRO Hoare Govett in Ireland. Founded in 1978, the firm has grown to become one of the leading brokers in Irish equities and government bonds. Riada has continuously augmented its resources through the recruitment of personnel with a proven record of success in the financial services sector. As part of this process, we are seeking to recruit two executives to join our Equity Division.

INSTITUTIONAL EQUITY SALES

The successful candidate will be responsible for providing an Irish equity sales service to our expanding client base. As a member of our equity sales team, the candidate will be required to develop and maintain new client relationships. A good knowledge of investment markets, both domestic and international, combined with proven sales skills are essential for this position. Candidates are likely to have at least three years experience in an institutional sales environment.

EQUITY RESEARCH ANALYST

The successful candidate will be responsible for providing in-depth fundamental research on a range of publicly quoted Irish companies. Candidates will have at least two years investment analysis experience within a stockbroking or fund management environment. They should also have a strong academic record and be able to demonstrate excellent report writing, presentation and marketing skills.

This is an excellent opportunity for experienced professionals to develop a career within the ABN AMRO Securities network. An attractive remuneration package, commensurate with experience, is available for the right individuals.

Please send your CV in strictest confidence to: Bob Aherne,
Riada Stockbrokers Ltd, 1 College Green, Dublin 2, Ireland. Fax: 353-1-6709298

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The ideal applicant will be aged 30 - 40, will have a proven marketing track record, a flair for food and experience in negotiating with high street supermarkets. Whilst knowledge and experience are fundamental, personality and communication skills will be of equal importance.

Interested candidates should write enclosing a full CV stating current salary details to: Mrs Julia Newman, PA to the Chairman, Vitacress Salads Ltd, Vitacress House, New Farm Road, Alresford, Hampshire SO24 9QH.

Senior Economist

RTZ-CRA, a world leader in the mining industry, is looking for a commodity specialist to join the Economics Department at its international headquarters in London.

The post involves the economic analysis of a range of minerals and metals with the object of assisting investment decision-making and financial planning. Specifically, it involves detailed consideration of prices, production costs, capacity developments, end-use markets and trade flows.

RTZ CRA

The successful candidate will have a good first degree, and probably a post-graduate degree, in economics or a related discipline, plus around ten years' relevant work experience. Familiarity with PCs, well-developed analytical skills and a proven ability to produce high quality written work are essential for the role.

An attractive salary and benefits package will be offered, reflecting qualifications and experience.

Applicants should submit a curriculum vitae and covering letter giving details of current salary to Ann Bassett, Staff Manager, RTZ Limited, 6 St James's Square, London, SW1Y 4LD.

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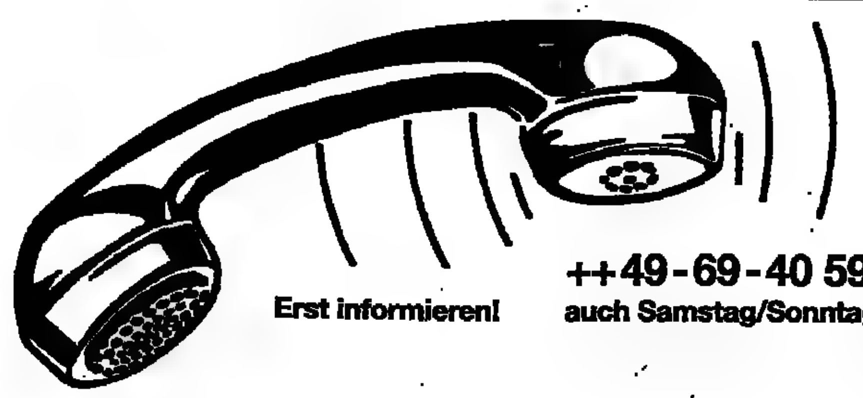
A degree in mathematics and computer science (or electrical engineering). Good knowledge of C++ and a familiarity with at least one relational database management system, coupled with the knowledge of either Fixed Income or Equity Derivatives.

Call Paul Sugarman on 0171 638 8717 or fax 0171 256 8362
78 Old Broad Street, London EC2M 1QP



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Baumann Unternehmensberatung
Frankfurt ◇ Zürich
Hanauer Landstr. 220 • 60314 Frankfurt am Main
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Commitment

Commitment, high professional standards, and a strong client-service orientation are the reasons for KPMG's success. We and our partner firms in 147 countries constitute one of the world's leading global auditing and consulting organisations. Our clients include all types of business associations ranging from large multinationals to small and medium sized enterprises across the industry spectrum. As of January 1, 1997, we are seeking to recruit a

U.S. Tax Specialist

for our office in Frankfurt, Germany. The position involves the preparation of U.S. tax returns primarily for U.S. citizens and nonresident aliens investing in the U.S., but also for partnerships and corporations. Applicants should be computer literate and have an accounting background, preferably with a degree in accounting or a comparable business degree. Experience in the field of international taxation and German language skills are preferred, but not required. Please apply to Mrs. Dagmar Gessner-Gaspar at the address and telephone number shown below. We are looking forward to introducing ourselves to you.

KPMG

KPMG Germany
Marie-Curie-Strasse 30
D-60439 Frankfurt am Main
Telephone 0049 (69) 95 87-22 50

INVESTMENT BANKERS

Eastern European
Emerging Markets

Excellent package · London

Our client is a leading international investment bank, with a growing strength in the emerging markets of Eastern Europe. As part of the steady expansion of their client franchise in the area, they are now looking for experienced, high-quality professionals to join their investment banking team for the region.

The roles involve the marketing, structuring and execution of the full range of complex investment banking products, including credit, bonds, equities and financial advisory for both local and western clients. The successful applicants will have a background of at least three years' experience in investment banking in this region with a respected US or European bank, strong technical and communication skills and fluency in at least one relevant language (Russian, Polish, Czech or Hungarian). The business requires excellent judgement, drive and initiative. It will also involve a considerable amount of travel.

Please write with your CV, quoting ref.579, to Alastair Lyon, Confidential Reply Handling Service, Associates in Advertising, 5 St John's Lane, London EC1M 4BH.

Applications will only be sent to this client, however please state any company to which your details should not be forwarded.

ASSOCIATES IN ADVERTISING

P.B.&P.

On behalf of our client, a leading international consulting firm, which has its headquarters in Zurich and specializes in the planning, design and implementation of water supply and waste-water engineering projects; we are conducting a search for the following position:

Director of Project Acquisition/ Project Manager

The successful candidate will meet the following criteria:
- Engineering sciences (civil, mechanical or electrical) and supplementary business/ management education
- Age between 35–47 years
- Proven ability to acquire international projects
- International project management experience
- Excellent written and verbal abilities in the English and French languages: German language skills are also a plus
- Exemplary professionalism, including confident demeanor, ability to produce desired results, tenacity and commitment to complete responsibilities and willingness to contribute above average work effort for project success

The primary duties of this position include the ability to:
- Acquire engineering projects and contracts
- Develop new markets
- Initiate contact and promote company relationships with potential clients and financing institutions/partners
- Prepare proposals, bids, etc. to compete for projects and secure work contracts
- Conduct and complete international project work
- Maintain client relationships and projects

Professional challenges:
- Largely independent role to complete professional responsibilities in an exciting, constantly changing and demanding field
- Direct working relationship with the company management/partners
- Work within a prominent and innovative international company

Individuals who meet these conditions and are excited by the challenges of this position are requested to send their Curriculum Vitae and professional documentation to P.B.&P., attention Peter Buser, or to telephone Christin Buser or Patrik Loeff.

PETER BUSER & PARTNER UNTERNEHMENSBERATUNG AG
ZÜRCHERSTRASSE 94, 8102 OBERENGSTRINGEN (ZÜRICH), TEL. ++41 1 751 88 88

Major International Bank

Derivatives

Base Metals *Paris*

Sales

Market Maker

As one of the largest banks in Europe, we are also an active player in financial markets. We make markets in many underlying instruments including interest rates, government bonds, equities, indicies and commodities.
The base metals sales and trading activity originates from our offices in three cities around the world. We are market makers of over-the-counter products (swaps and options) to a worldwide customer database.

Positions : • Derivatives products sales, European time zone (frequent travelling). Fluency in more than two languages (English and French a prerequisite).
• Derivatives products market maker.

Location : Paris.
Profile : dynamic individuals with experience in the Financial Markets. Preference given to candidates with metals derivatives products experience.
An educational/professional background in finance and/or marketing.
The rewards : the salary and benefits package will reflect your experience and abilities.

Please apply with a complete CV, including details of current salary, quoting ref.36267 to Press Emploi, 26 rue Salomon-de-Rothschild, 92150 Suresnes Cedex.

The Ernst & Young ITEM Club, a leading UK and International forecasting group, seeks a Chief Economist

Responsibilities include:
- Producing economic quarterly forecasts for the UK and World economies
- Running forecast meetings
- Chief spokesperson at conferences and to the media
- Developing the Club's commercial activities

The position offers:
- High profile role
- High degree of autonomy
- Involvement with broad cross section of industry

The successful candidate will have:
- A degree/higher degree in economics
- Worked in the public or private sector as an economist for a minimum of 3 years
- Experience of building/running macro economic models
- Excellent communication skills
- High degree of self motivation

Compensation is competitive with full benefits and profit related bonus.

Applications in writing together with a CV should be sent to:
Mr Marc Hendriks
Managing Director
Item Club
Becket House
1 Lambeth Palace Road
London SE1 7EU
Closing date for applications 20th December

Fixed Income Analyst

Our client, a major global investment bank, is seeking to recruit an economist / fixed income analyst to be responsible for macroeconomic coverage and political analysis of the Balkan and east European region.

Primarily looking after Bulgaria, Romania and Yugoslavia, you will prepare reports and provide timely updates and investment advice to clients and to the bank's trading, sales and corporate finance units. You will also contribute to the formulation of the bank's central and east European fixed income and equity strategy and asset allocation. Part of your role will involve participating in investment conferences and providing comment on economic and political events to the press and wire services. You will also be expected to develop and maintain a relationship with the Bulgarian monetary and fiscal institutions.

A graduate in a financial or economics discipline, you will have at least two years' experience in fixed income research, preferably within a leading financial institution. You will have had exposure to the Brady / local currency markets, have a strong understanding of market fundamentals and analytics and will have established a relationship with major institutional clients and the Bulgarian authorities. Excellent communication skills, both written and oral, in English are essential, as is fluency in Bulgarian and Russian.

To apply, please send your career and salary details to BNB Response Services, 1st Floor, Wellington House, Queensmere, Slough, Berkshire SL1 1DB. Applications are required by Friday 3 January 1997. Please state any companies to whom your CV should not be forwarded and quote reference 220A on your application.

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appears in the UK edition every Wednesday & Thursday and in the International edition every Friday.
For further information please call:
Toby Finden-Crofts on
+44 0171 873 3456

ORD MINNETT

Ord Minnett, one of Australia's consistently top ranked investment banks, is seeking an experienced professional for the following position in its London office:

EQUITY SALES PERSON

The applicant must have a strong research background in Australian equities, with at least three years analytical experience within the securities industry.

This position offers the right candidate an outstanding career opportunity with excellent prospects for promotion. An attractive remuneration package is offered.

Please send your CV and supporting details to:

Mr D.W. Garrard
Managing Director
Ord Minnett Limited
25 Copthall Avenue
London EC2R 7BP

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2 ECONOMISTS, GERMANY AND ITALY

Stone & McCarthy Research Associates, a growing financial and economic research firm, are seeking at least two European economists to look specifically at the German and Italian markets, in order to complement our London-based team of fixed income/currency analysts and economists.
The ideal candidate will:

- Focus on the macro-economic and political developments in Germany or Italy and possibly in a neighbouring country;
- Have a degree in economics and a minimum of two years' experience in a financial institution, economic research institute or relevant government agency;
- Be fluent in English and German or Italian, both written and spoken;
- Have a strong academic background and computer skills.

Salary will be very competitive and based on relevant experience.
Contact: Gary Kedney, Stone & McCarthy Research Associates, City Gate House, 39-45 Finsbury Square, London EC2A 1PQ
Tel: 0171 638 1004 Fax: 0171 638 1005, email gary@smra.co.uk

Are you really fulfilling your true career potential? If your present postion leaves you frustrated, dissatisfied and unable to manage your career progression, call The Mainland Partnership. We will identify your strengths, give you access to the unadvertised job market and provide you with the right career management advice to dramatically improve your earning power. Call now to get your career moving.

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• Senior IR Options Broker
• Senior Equity Derivatives Broker

fleet banking
Search & Selection Limited

We have been exclusively retained to search for outstanding individuals to fill the above positions. Our client is based in the City of London and is one of the largest international futures and options brokers, with a presence on all the world's major exchanges. They have an enviable reputation for providing their clients with excellent services combining multimarket access, quality execution, cutting-edge technology and highly respected research. They continue to expand and are constantly developing their innovative approach to meet the challenges ahead.

They require individuals who can enhance the capabilities of their two teams covering listed interest rate options and listed equity derivatives by introducing client bases which will produce strong revenue streams.

In both cases, candidates will be well educated, have strong marketing capabilities, experience of European markets, and be committed team players. Although the emphasis will be on listed European products, any US or Asian experience would be useful and knowledge of OTC products would be a definite advantage.

These positions offer unique opportunities for dynamic individuals, confident of their own abilities, to widen the services they offer their clients by joining this forward-thinking house, thereby improving their career and remuneration prospects.

Along with competitive basic salaries, our client offers significant bonus potential based on individual performance.

In the first instance, please contact our designated consultant, Angus Watson of Fleet Banking Search & Selection Ltd, at 117 Newgate Street, London EC1A 7AE. Tel: 0171 600 6500; Fax: 0171 600 6300; E-mail: fleet@dial.pipex.com

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Yamaha Motor Europe N.V. is the headquarters of Yamaha in Europe and is responsible for the European marketing of a wide range of products such as Motorcycles, Scooters, Marine & Water Vehicles and Power Products.

To support the expanding Scooter market, The Marketing Communications Division is looking to strengthen its team by employing a Marketing Communications professional (m/f) for the following position:

Communications Manager Scooters

Your function. You will be responsible for the development and implementation of the marketing communications strategy for our Scooter business and new products business in Europe. You will work with the Sales and Marketing Division, the Product Planning Division, Overseas Factories and European Distributors. Responsibilities will include the production of all advertising materials (brochures, interactive media, posters, photography, etc.) as well as the development of the POS shop design and branding materials programmes.

A key element of the job will be the supervision and coordination of the various supporting agencies, as well as control of budgets.

Your profile. You will be a communications professional and have been educated to at least University level (or equivalent) and have had several years experience in the marketing of consumer durables, or on the agency side working on leisure, transport and/or sports related accounts.

You will be a dynamic self-starter who possesses both an open and creative mind as well as real practical skills. You will also have the desire and ability to work in a multi-cultural and International environment.

In addition you will either possess some affinity to Scooter products, or will have a very keen interest to learn and become involved in this young leisure and transport world.

The successful candidate will feel comfortable communicating at every level, from project staff to senior management and will also be prepared to travel frequently, primarily throughout Europe. Finally, you will need to have fluent command of the English language and a good working knowledge of both French and Italian.

Your age will preferably be between 28 to 35 years old.

What we offer. Yamaha Motor Europe offers you the challenge to use your existing skills, to develop your experience and to realise your personal goals within a young dynamic and progressive international environment.

An attractive remunerations package awaits the right candidate. If you are interested in this position please write a letter of application enclosing your curriculum vitae (both in English) within 14 days to:

Yamaha Motor Europe N.V.
Attn. Mrs. R. van Dommelen
Human Resources Division
(MarCom/ad/Ft.12/96)
P.O. Box 75033
1117 ZN Schiphol
Fax 31-20-654-6888

YAMAHA

TOP OPPORTUNITIES IN BANKING

MARKETING OFFICER £40,000 to £50,000

Our client a respected and developing European Bank is looking to recruit a Manager to join its small dynamic team who are involved in a wide range of activities. Applicants must be able to demonstrate high level technical skills including financial modelling and have the ability to quickly assimilate new concepts and work in a changing environment. The preferred candidate will be a graduate banker with experience of marketing to corporate clients and have a sound understanding of credit and risk issues.

CREDIT ANALYST £25,000 to £30,000

An outstanding opportunity to significantly progress your career working in a challenging and rewarding environment with our prestigious client. The role will involve a broad range of duties including all aspects of credit and marketing support, to develop relationships with existing and potential corporate clients. The successful applicant will most likely have completed a bank graduate training programme and possess strong interpersonal and communication skills.

For further details please contact or forward your CV, to Peter Brooker, Associate Director.

Gordon Brown

Compliance Officer

Investment Advisory Firm

Excellent Package **London**

Our client is a prestigious London-based investment advisory partnership with over $18 billion under management for clients around the world. The firm engages exclusively in international/global active quantitative asset management, utilising sophisticated investment techniques to manage an array of value-added currency, fixed income, and equity strategies. The ownership structure and capital backing enables the creation of an independent, entrepreneurial atmosphere.

An experienced compliance professional is now sought to work closely with senior management to ensure that current and future products, procedures and operations are fully compliant with all regulatory requirements.

Reporting to the Managing Director, the successful candidate will provide innovative practical solutions to complex compliance issues that still allow for commercial success. Liaising closely with regulators to maintain the highest possible awareness of current and future regulations, the individual will develop and implement systems, procedures and training programmes as well as providing expert advice to all areas of the business. Awareness of new product development and proactive advice on regulatory issues would also be required.

Most likely a graduate, the successful candidate will have a proven track record in compliance on a global basis. The individual must be articulate with the ability to interpret and explain complex rules unambiguously at all levels of the business and be familiar with a range of regulatory rules and issues as well as investment products. Strong relationship building skills, a confident and assertive manner and a positive 'hands-on' approach are imperative.

This appointment represents an outstanding opportunity for an enthusiastic, focused individual who is capable of taking a broad overview and is keen to play a major part in a dynamic and growing organisation.

To apply, please forward your CV, including salary details, to our advising consultant at Harvey Nash Plc, 13 Bruton Street, London W1X 7AH. (Tel: 0171 333 0033, Fax: 0171 333 0032.) Please quote reference number HNF166FT. You may also apply via http://taps.com/Harvey_Nash

HARVEY NASH PLC

Analyst looking for first career move?

LONDON

Colonial is a successful international financial services organisation. In the process of demutualising, with UK funds under management of £4 billion and £10.5 billion worldwide. In the UK, Colonial has a successful investment track record and has won 27 Micropal awards. The Group has recently acquired CIM Fund Managers and is seeking further substantial growth in 1997.

As part of the planned expansion of the Investment business a further Analyst is required to join the UK Equities team. The Analyst will be expected to become the point of reference for his/her area of expertise for the entire division. There is ample scope for progression either within the UK or overseas, and positive encouragement for continuing professional development.

We are looking for:

- **Enthusiasm and the ability to work independently within a team environment.**
- **Commitment to making the business a continuing success.**
- **Graduates with good degrees, numerate, Excel literate, with an IMC qualification or working towards it.**
- **Excellent analytical and communications skills.**

Please write to Wendy Gannaway/HR Planning stating your current remuneration package, brief personal and career history and how you meet our requirements. The closing date for application is 13th December.

Colonial.

Colonial, Colonial Mutual House, Quayside, Chatham Maritime, Kent ME4 4YY.

Insurance Tax Specialists

Senior/Executive Managers

London & Edinburgh – £50,000-£80,000 depending on experience and location

Ernst & Young is one of the world's leading professional services organisations. We have the world's largest tax consultancy and the second largest tax practice in the UK.

Our insurance tax team offers expert insurance tax advice to a wide range of blue chip clients throughout the UK. It now has opportunities for two insurance tax professionals, one based in ***London*** *and one in* ***Edinburgh.***

As a Senior Manager/Executive Manager you will:

- *Have at least two years' experience of life insurance taxation in either professional practice or industry.*
- *Be a highly competent professional who is both skilled in life insurance tax and aware of the wider tax background against which insurance companies operate.*
- *Be able to relate technical tax issues to clients' business environment and needs in a proactive way.*
- *Possess the necessary skills to manage and develop good relationships with clients and others within the firm.*

In exchange, Ernst & Young commit to providing you with:

- *Significant responsibility for developing an excellent existing client portfolio;*
- *A dynamic and friendly team environment;*
- *Close working relationships both within Ernst & Young's Financial Services Group and with other parts of our large international organisation;*
- *Support and encouragement in developing a significant profile outside the firm;*
- *For the right candidates, there are also partnership opportunities.*

If you are interested in joining us, please send your CV and current remuneration details to:

Sophie Hatton, National Recruitment Department, Ernst & Young, Rolls House, 7 Rolls Buildings, Fetter Lane, London EC4A 1NH.

ERNST & YOUNG

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FUND MANAGER
Glasgow Based

MURRAY JOHNSTONE
SCOTTISH INTERNATIONAL INVESTORS

Murray Johnstone, one of Scotland's leading international investment management companies, wishes to recruit a Smaller Companies Fund Manager.

With funds under management in excess of £4bn and offices in the UK, USA and Singapore, Murray Johnstone offers a wide range of fund management services to investment and unit trust, institutional, charity and private clients.

We are seeking someone with company analysis experience and who is likely to have had portfolio management responsibility particularly in UK Smaller Companies, to join our UK investment team. You will be responsible for research and analysis in this increasingly important area of our business reporting to the Smaller Companies Manager.

It is likely you will be a graduate with a minimum of four years UK investment experience, two years of which will have been in the smaller companies sector, and possess full IIMR or equivalent. Experience of managing funds and client presentations will be advantageous. Demonstrable success is essential as is the ability to communicate at all levels, both internally and externally.

The salary and benefits package will reflect the importance of this role.
Please apply in writing with full CV to Douglas Corner, Head of Human Resources.

Murray Johnstone Limited
7 West Nile Street Glasgow G1 2PX
Regulated by IMRO

Appointments Advertising

appears in the UK edition every Monday, Wednesday & Thursday and in the International edition every Friday

For further information please call:

Dominic Knowlson

Alghanim INDUSTRIES

CAREER OPPORTUNITY IN KUWAIT

Alghanim Industries, the largest privately owned group of companies in Kuwait with interests in over 20 businesses, and a multinational workforce of *approximately 3000 has an opening for:*

Controller - Automotive Group

Reporting to the Corporate Controller, you will be responsible for internal control, financial accounting, improvement in working capital management and cost efficiency, business analysis, management information and planning support and efficient utilization of computer systems. You will also be responsible for profit maximization through effective cost control and by following up on the implementation of action plans in strategic areas aimed at achieving the group's objectives in automotive sales, service and rental businesses. A proven track record of achievements in these functions is a must. You should also be able to work in multi-national environment and handle multiple assignments. Excellent communication skills, and the ability to effectively deal with various levels of managements in the organization are essential.

You should be capable of promotion to the Corporate Controller position and have the ability to manage the finance control function of over 20 businesses in trading, manufacturing, contracting and services area.

You are a C.P.A. C.A. or Cost and Management Accountant, preferably complemented with an MBA, 35 to 40 years old with at least 10 years post qualification relevant financial experience in automotive sales, services, parts and car rental business.

We are offering a very competitive tax free expatriate salary and benefits which include performance related bonus, generous housing allowance, life and medical insurance, paid holidays, airfares and car allowance.

If you match the requirements for this challenging position, please fax or E-Mail your detailed CV, in confidence to:

Director of Human Resources
Fax No. (00965) 4847244, E-Mail: suhail@alghanim.com

Marketing and Sales Manager - Uzbekistan

Senior Position — **Excellent Package**

Our client is a household name in soft drinks, committed to building company performance by aggressively developing new emerging markets.

As head of Sales and Marketing for our Uzbek JV, your role will be to define and implement an effective sales and marketing strategy for the company, to build new business and promote new products and brands and to travel within Uzbekistan to support regional operations.

This senior position is suitable for candidates who have a proven track record in managing the marketing and sales function in a large company, with a very strong preference for candidates with soft drinks experience. A good level of spoken Russian preferable but not essential.

Please forward a full resumé with covering letter to AC & Partners, Recruitment Consultants, 22 Avenue Eugène Plasky, 1030 Brussels, Belgium. Tel: +322 732 26 40 Fax: +322 732 26 46. All applications will remain strictly confidential.

ACP RECRUITMENT CONSULTANTS

CUSTOMER LIAISON OFFICER

Precious Metals – £32k

Responsible for marketing precious metals business with particular emphasis on London, Hong Kong and Australia, you'll need over 10 years experience in the bullion market together with a proven ability to identify and develop a portfolio of customers that will complement our client base. Experience in new product development and in more than one bullion trading time zone would be advantageous. You should possess a degree in marketing, have a thorough knowledge of spot, futures and options markets and be SFA registered.

Please reply to PO Box A5939, The Financial Times, 1 Southwark Bridge, London SE1 9HL.

CONVERTIBLE BOND ANALYST - LONDON

An exceptional opportunity for an amibitious numerate graduate within a major global investment bank. An exciting environment in which to work and learn.

THE PERSON

- Bright and energetic individual, with an established interest in the equities derivatives markets
- Good first degree, an inquisitive mind and possibly an MBA
- Minimum of 6 months experience in equities, fixed income, forex, or credit areas and some knowledge of convertibles
- A strong IT orientation with experience of Microsoft Office products.

THE JOB

- Part of a small global convertible research team analysing, preparing and presenting convertible research
- Valuation, spreadsheet work and writing research whilst working on a sales trading desk
- Opportunity to progress rapidly within dynamic and motivated new team
- Very competitive remuneration package

Please reply enclosing your CV to Miranda Whitamore or Mark Horlock

RVL

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54 GROSVENOR STREET LONDON W1X 9FH

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FAX: 0171 409 1053

ACCOUNTANCY APPOINTMENTS

MIS Manager

Asset Management

Excellent Package — **City**

Exceptional opportunity for highly talented professional to apply and manage investment administration MIS process of this major UK asset management company.

THE COMPANY

- Investment management arm of prestigious UK banking group. Ambitious growth plans.
- Funds of £30 billion under management. Extensive range of clients worldwide.
- Strong management team committed to developing and maintaining integrity of investment administration systems.

THE POSITION

- New role, primarily responsible for the development and implementation of investment administration MIS process.
- Work closely with operational staff, fund managers and regulatory authorities to ensure high quality standards are enhanced and maintained.
- Manage team, develop cost effective and innovative MIS systems to support continuous business expansion.

QUALIFICATIONS

- Minimum five years' experience in securities industry. Familiarity with investment management administration essential.
- First class analytical and commercial experience. ACA/ACCA qualified. PC and systems literate.
- Excellent manager, able to motivate and lead team. Succinct communicator with strong presentation skills.

Please send full cv, stating salary, ref FS61206, to NBS, 10 Arthur Street, London EC4R 9AY

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Management Reporting

Project Manager

Premier Treasury Group

To £45,000 + Benefits — **London**

Exciting opportunity to join innovative management information analysis and reporting team. High profile role working with dealers, risk and senior management on redesigning management information systems.

THE COMPANY

- Established reputable UK banking group with market capitalisation in excess of £9 billion.
- Extensive treasury operation handling diverse range of products and services.

THE POSITION

- Manager in MIS team, leading design and development of replacement management information systems.
- An innovative approach to enhancing work methods.
- Liaison with traders, risk managers, IT and senior management negotiating design requirements and implementing solutions.

QUALIFICATIONS

- Qualified Accountant with a strong academic record and numerate degree.
- Minimum of three years' banking experience.
- Exposure to large systems implementation from business perspective.
- Able to respond to present and future management information requirements.
- Strong communicator with flair to drive change to enhance service/efficiency. Credible at senior level.

Please send full cv, stating salary, ref FS61208, to NBS, 10 Arthur Street, London EC4R 9AY

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DEPUTY FINANCE DIRECTOR

MAJOR FTSE COMPANY

NORTH — **c.£120,000 + BENEFITS**

- Well known plc with significant growth plans.
- A Deputy Finance Director will take responsibility for the day-to-day financial affairs of the business, including financial control, management accounting, tax, treasury and internal audit.
- This position should lead to a board appointment in two to three years.
- Candidates, probably aged 35-45, must have a strong track record of success in a control or divisional finance function of a major and well respected business, most likely as financial controller.
- Alternatively candidates may be partners in one of the major accounting firms in the UK.
- Candidates must be strong commercially, with first class influencing and communication skills.

Please apply in writing quoting reference 1289
with full career and salary details to:
Katie Adler
Whitehead Selection Limited
11 Hill Street, London W1X 8BB
Tel: 0171 290 2045
http://www.gbnet.co.uk/whitehead

Whitehead SELECTION
A Whitehead Mann Group PLC company

FINANCIAL DIRECTOR

ELECTRONICS MANUFACTURING

THAMES VALLEY — **c.£55,000 + BONUS + BENEFITS**

- £30 million turnover division of a quoted UK based electronics group, manufacturing at several locations in this country, plus sales and service businesses world-wide.
- Part of a close-knit management team, the Financial Director will share responsibility for all aspects of the business world-wide with particular emphasis on financial matters, and will play a positive, active role to ensure the achievement of business and financial goals.
- In addition to routine accountabilities, he/she will provide considerable support to the Managing Director as regards strategic planning, acquisitions, disposals and other major investment related decisions.
- Qualified accountant in their thirties, possibly MBA, with in-depth manufacturing sector experience gained in a large international group. Must be familiar with sophisticated costing techniques, including for new product development.
- Resilient, persuasive team player with sound management and business judgement, excellent communication skills and an analytical approach. Exposure to working overseas, in particular in the US, would be especially advantageous.
- This is a first class opportunity for a highly committed Financial Director, capable of playing a full part in the running of an international business. Scope for subsequent progression into general management.

Please apply in writing quoting reference 1285
with full career and salary details to:
[illegible]
Whitehead Selection Limited
11 Hill Street, London W1X 8BB
Tel: 0171 290 2045
http://www.gbnet.co.uk/whitehead

Whitehead SELECTION
A Whitehead Mann Group PLC company

WHITBREAD RESTAURANTS & LEISURE

Beefeater Restaurant & Pub — TGI FRIDAY'S — Pizza Hut — THRESHER

Finance Manager – Germany

Luton/Germany – £40/50,000 + bonus + car

Whitbread Restaurants and Leisure, a division of Whitbread PLC, has a turnover in excess of £1.2 billion derived from managing the group's branded restaurants, shops and hotels in the UK and overseas.

The acquisition of Costa Coffee, David Lloyd Leisure, Scott's Hospitality and the Pelican Group within the last two years demonstrates the importance of the division and the commitment of the group to continue to invest substantially in the business.

The division already has a well established operation in Germany with over eighty restaurants and is now in the process of developing further businesses there from its hospitality portfolio.

Reporting to the Divisional Financial Controller, this individual will initially undertake a project oriented role split between the UK and Germany, encompassing such tasks as site appraisal, the financial management of development projects, establishing appropriate finance systems and acting as a close link between the German business and the UK Head Office in Luton. It is anticipated that this role will then develop into a line position in Germany for the new business within twelve months

Candidates should be either qualified accountants or MBA's who are fluent German speakers and ideally have already lived overseas. It is essential that the individual can demonstrate a commercial bias to date through investment appraisal, project management, or as a member of a management team, rather than operating in a purely financial role.

The future development plans of the group are such as to be able to offer further career opportunities to a high calibre individual, both in Germany and the UK.

Please send your curriculum vitae with current salary details and an explanation of how you meet these requirements to Carrie Andrews, Ernst & Young Management Resourcing, Rolls House, 7 Rolls Buildings, Fetter Lane, London EC4A 1NH, quoting reference CA0076. Fax number +44 (0) 171 931 1022.

ERNST & YOUNG

The United Kingdom firm of Ernst & Young is a member of Ernst & Young International

Internal Auditor - Europe

Delphi Automotive Systems is the largest supplier to the Automotive industry - 17 Technical Centres, 170,000 employees operating at 190 locations in 31 countries throughout the world. Due to our continued growth in Europe, we have an immediate opening in our Technical Centre in Luxembourg.

The Position

The successful candidate will play a key role in co-ordinating the internal controls for Harrison Thermal Systems Division in Europe, across 4 locations (in France, Italy and Poland). Your responsibilities will include:

- Co-ordination of internal controls in each location according to corporate audit requirements and procedures
- Assuring effective communications with the corporate and Delphi Harrison HQ audit organisations
- Reporting to the European Financial Manager and to the Audit Manager located in our US divisional HQ

Your Profile

We are looking for a university graduate with the following qualifications:

- A recognised audit qualification
- Preferably, at least, 5 years' experience in an audit firm
- Mature personality with excellent communication skills
- Ambition to succeed in an international multi-cultural environment
- Basic knowledge of data-processing systems
- PC literacy (Word and Excel)
- Advanced command of English and strong report-writing skills
- Other European languages would be an advantage (with a preference for French, Italian, Polish and/or Russian)
- A willingness to travel 50% of the time

Your Rewards

The contribution you make will be rewarded with international career prospects and outstanding developmental opportunities. A competitive salary is matched by the benefits expected of a world-class company.

Next Step

Send your CV, within 10 days, with details of current salary, to Yvonne O' Reilly, DELPHI Technical Centre, HR Dept., Ave de Luxembourg, L-4940 Bascharage, Luxembourg or use fax no. +352 5018 256. Please quote ref. 96/106. All applications will be treated in the strictest confidence.

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You will need to be a chartered accountant with upwards of one year of experience in IT audit including application system reviews, risk-based audit work and ideally some knowledge of investment banking.

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Please send your CV to Mark Wheatley, Parkwell Management Consultants, 8 Wilfred Street, London, SW1E 6PL or by fax on 0171 - 233 5205. Alternatively please telephone him on 0171 - 630 8000 (daytime) or 0171 - 920 0311 (evening).

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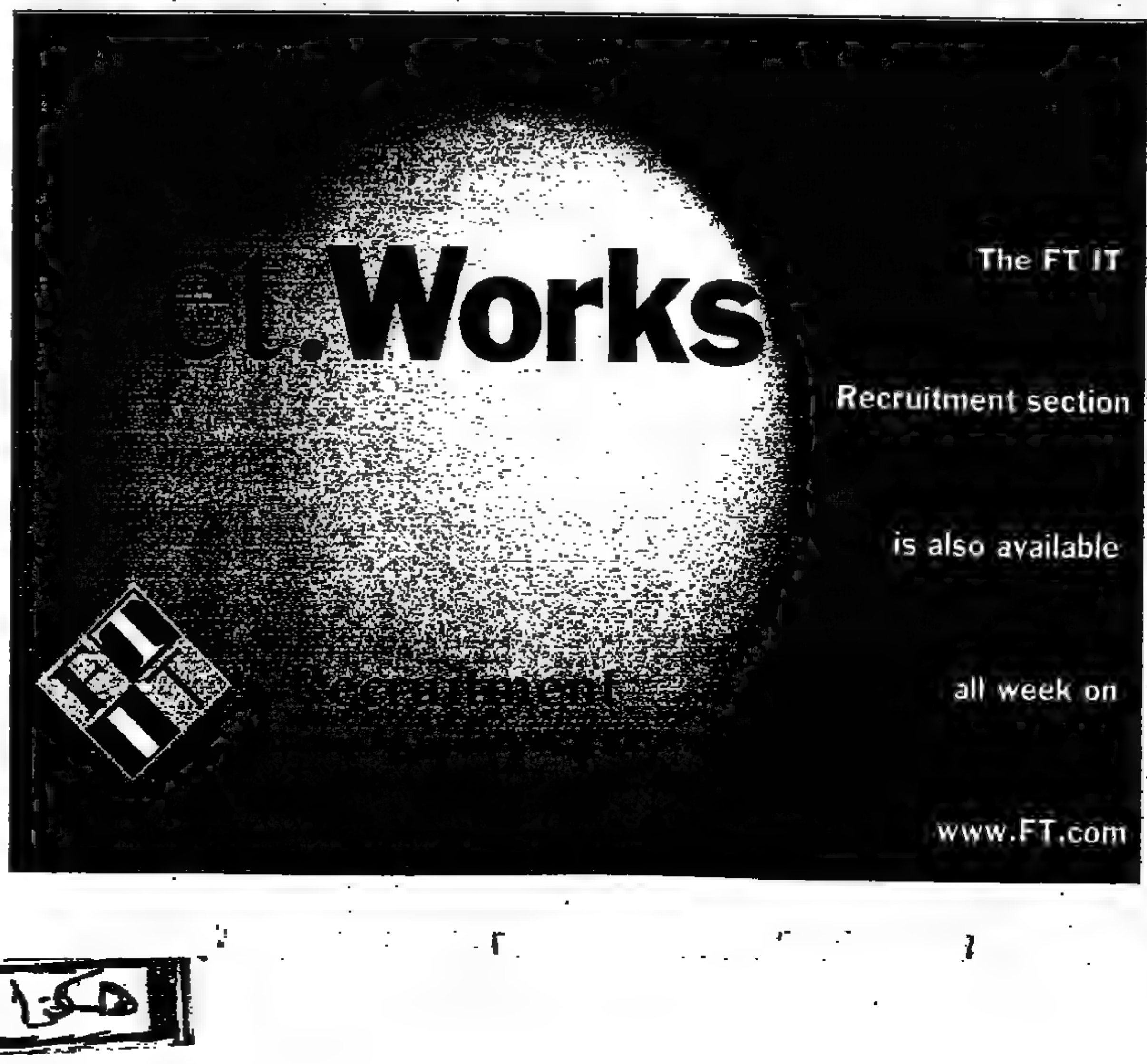


TURKEY: INVESTMENT AND FINANCE

Set on the east-west divide

The EU customs union is opening Turkey's first Islamist prime minister to a broader world, writes John Barham

Turkey has always struggled with an identity crisis. It faces both east and west. It is torn between the archaic and the modern. Two events this year have deepened this ambivalence.

In January, the customs union with the European Union came into force, essentially making Turkey part of the single European market, linking it more firmly to the west and exposing it to the full force of international capitalism.

Then in July, Mr Necmettin Erbakan took power as modern Turkey's first Islamist prime minister. Although he has not tried dismantling the secular state, his rise is proof that a growing number of Turks reject the established political system and fear an increasingly internationalised economy.

In a sense, it scarcely matters who runs Turkey. Conservatives, socialists and now Islamists have all had their turn over the years and all have shown they are as incompetent as each other.

Their ineptitude is reflected in chronic inflation, rising unemployment, deepening inequality and low education standards.

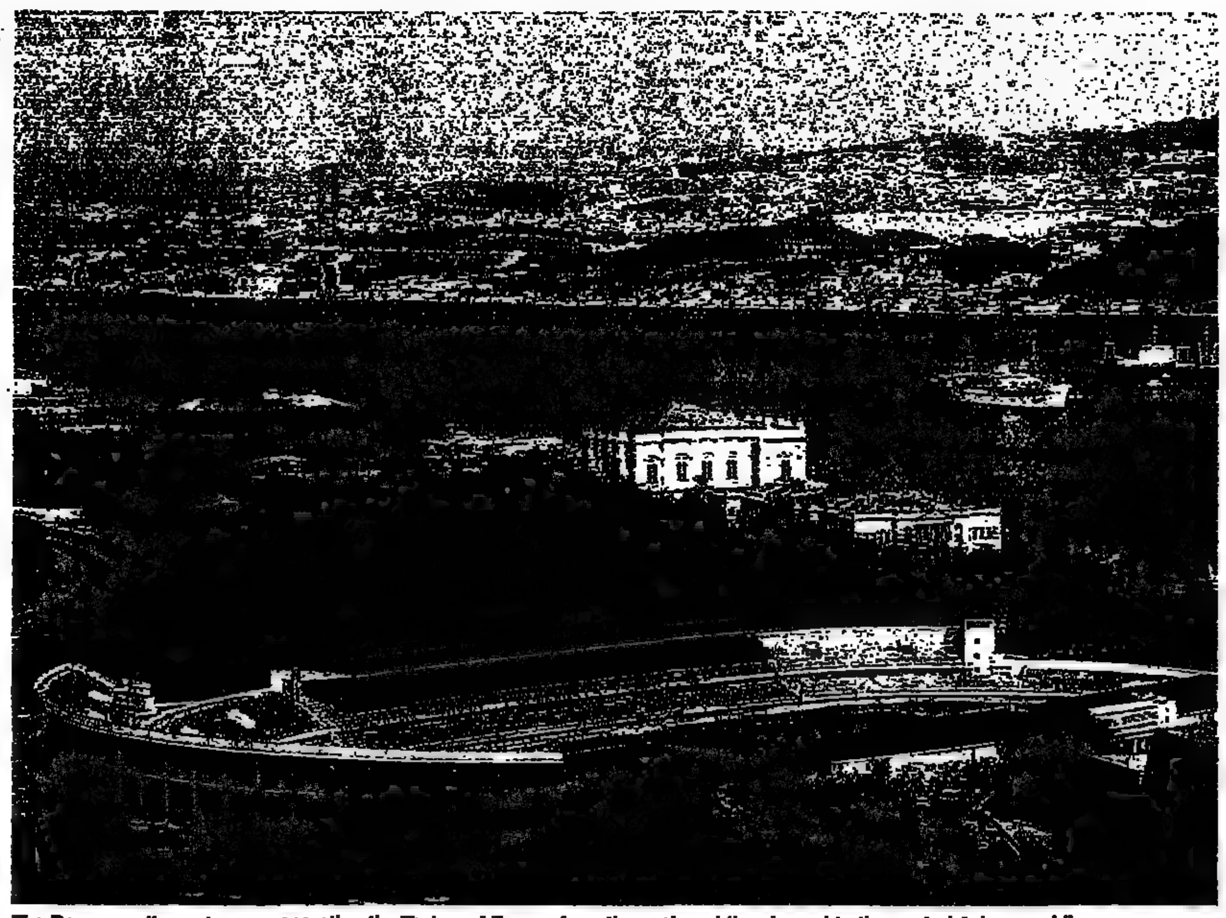
Big business has had enough. Mr Halis Komili the head of Tüsiad, the employers' association, says: "What we want are sweeping changes in the country's politics. We need deep-rooted changes to be able to wake up from this nightmare. Only by society participating in the political process can we end this nightmare."

Mr Erol Sabanci, a member of one of Turkey's wealthiest industrial families, warns "income distribution is getting out of balance. Inflation, which brings social unrest, is stuck at 80-85 per cent a year. If the economy is not on the right track we will not have adequate schools, hospitals, roads, harbours. I like to live in a country where inflation is low, where [there is] security, so distribution of wealth should be more favourable. But it is getting worse."

Their pessimism is surprising. Turkey is enjoying its second year of strong investment-led expansion. Akbank, Turkey's biggest private bank which Mr Sabanci owns and runs, is raking in big profits. Besides, the private sector is healthy. It is the sickly public sector that is holding Turkey back.

Yet as an Istanbul banker says: "It is an illusion to say [the public sector's problems] will not affect my business. Until there is action on reform there is a limit to the deals you can do."

Volatility, political uncertainty and high interest rates stunt growth and investment. Turkey's investment rate has averaged 25 per cent of GDP over the last ten years, similar to many developing countries, but much less than Asia's Tiger economies which Turkey must compete with. Furthermore, inward investment has rarely exceeded $1bn a year, small change by international standards.



The Bosporus: the waterway separating the Turkey of Europe from the east; and the channel to the central Asian republics *Ab Harman*

Mr Cem Duna, a former top diplomat turned business lobbyist says: "Turkey gives the impression of a country less and less able to solve its problems, in foreign policy, domestic politics or the economy. Customs union alone is insufficient to bring a quantum increase of capital flows."

Growth has averaged just 4 per cent between 1990-95, a mediocre performance given population growth of just under 2 per cent. Public finances are collapsing – interest payments on the government's debts will probably consume nearly two thirds of revenues next year – and with them the state's ability to provide basic services. Blackouts have become a feature of daily life. On another level, schools provide pupils with little more than basic literacy and numeracy.

The economy is not creating enough jobs – urban unemployment is worsening, particularly among the young. Society is becoming divided between haves and have-nots and between secularists and Islamists.

Mr Selim Oktar, general manager of Strateji-MORI, a polling company, worries about deteriorating social trends. He says alienation is growing, and with it an appetite for radical politics.

He reckons that about 40 per cent of the population has Islamist values (although Mr Erbakan's Refah party does not win all their votes). Sympathy for political Islam rises as the quality of education declines, wages fail to keep up with inflation and disgust at the decadence of the corrupt secular state deepens.

Disturbing evidence of links between government politicians, the security establishment and right-wing gangsters began emerging after a car crashed last month carrying a wanted underworld leader, a police chief and an MP from the centre-right True Path party, the governing coalition's junior partner. Only the MP survived. He made no effort to hide his friendship with the gangster. He told a TV interviewer: "I loved him like a big brother."

It is very easy to get carried away with bad news in Turkey. Yet the country's resilience is almost miraculous, muddling through the most daunting problems. Businessmen shrug at warnings of an impending balance of payments crisis, a financial market collapse or a surge of inflation as the government liquidates its mountain of local debt with a burst of monetisation.

Turkey's large, growing informal sector gives tremendous flexibility, enabling it to ride out a deep recession in 1994 with relatively little social trauma.

Depressing official statistics on wages, employment, investment, productivity, even the balance of trade, are misleading. Turkey is not a wealthy country, but neither is it a basket case.

International companies cannot afford to ignore Turkey. Most of the world's multinationals already have a presence. It has a young, urbanising population of over 60m. Five Asian car makers are either planning or already building factories in Turkey. Carrefour, the French retail giant, plans to open 42 hypermarkets over the next ten years.

Penetration rates for consumer products ranging from credit cards or washing machines are well below European levels, indicating great potential demand. It is located at the crossroads of Europe, the Middle East and central Asia. Istanbul is trying to set itself up as a regional financial centre.

And there are those who think Turkey's chronic political instability will soon be a thing of the past. Mr Mehmet Kutman, chairman of Global securities a big Istanbul brokerage, says "the political situation is better now. At least now we have a government and a party which needs to prove itself. Unless Erbakan moves to the centre-right he cannot increase his share of votes. I do not believe they are looking to change the country. There is no threat to secularism under Refah."

He claims Turkey's high real interest rates will fall as political risk declines, sustaining this year's investment-led growth.

Crucially, Refah has done nothing to sever ties with the west or scrap the customs union, although it attacked the EU as a "Christian club" while in opposition and promised to set up a competing Islamic common market. The union, allowing industrial goods to pass freely between Turkey and the EU, is likely to prove a potent force for modernisation. It fully opens Turkey's home markets to international competition. Companies will either have to shape up, sell out or go to the wall. Turkey's flabby conglomerates will be forced to focus operations more tightly. This will be a wrenching exercise, which will doubtless cause great social and political stress. But it should also create opportunities for new entrants either from outside Turkey or for homegrown entrepreneurs.

Turkey has had to adopt EU legislation affecting virtually every aspect of business life. Full enforcement of EU codes will not come overnight, but state aid, cartels, trademark piracy can and will be successfully challenged in the courts.

Open markets will gradually impose greater discipline on Turkey's unruly economy. Finally, and perhaps most crucially, trade should help Turkey sustain its links to the west. Free trade invariably brings a flow of ideas and information. Customs union has always been seen both from Brussels and from Ankara as a way of anchoring Turkey to the west.

Nothing is ever simple or straightforward in Turkey. The old consensus in favour of an interventionist secularist state is crumbling but no political group is successfully articulating a new model of society driven by private enterprise and governed by a minimalist state.

On the contrary, Turkey is becoming dangerously fragmented between right and left, secularists and Islamists, nationalists and Europhiles, Turks and Kurds, rich and poor. Established political leaders are discredited. Refah's Islamists seem overwhelmed by the challenges of governing a complex society.

The paralysis will continue until a new consensus emerges. Some analysts think this will require a new generation of politicians, but Turkey has no time to waste. It is again becoming the sick man of Europe. Ultimately, Turkey has little alternative to participating in an increasingly open world economy. Still, the road to integration in world markets is likely to prove far longer and more arduous than many suspect.

IN THIS SURVEY

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Politics: by John Barham

Better than business first feared

Coalition splits and conflicting policies seem to promise a period of uncertainty

After five months in power, Mr Necmettin Erbakan, the firebreathing leader of the Islamist Refah party has achieved nothing – to the relief of the business establishment and the dismay of his followers.

Mr Erbakan is locked in a power-sharing alliance with the centre-right True Path party. His few overtly Islamist initiatives have mainly been ill-starred visits to pariah states such as Iran, Libya and Nigeria.

Tense coalition: Necmettin Erbakan, the Islamist prime minister, at prayer and his rival, the pro-western, secularist Tansu Çiller, deputy prime minister and leader of the True Path party Reuter

His pronouncements on economic policy vary from the baffling to the laughable. But he has not indulged in a populist free-for-all or set about dismantling the capitalist, secular state as analysts feared.

The business world is beginning to see him as a pragmatist, not a raving fundamentalist. Some commentators even see him in power until mid-1998 when he is supposed to hand power to Mrs Tansu Çiller, True Path leader. Indeed, there is relief that Mr Erbakan has brought a semblance of direction to a country adrift since early 1995 when Mrs Çiller's previous government began breaking up.

Some financial market analysts say Refah ministers, generally less corrupt than mainstream politicians, are proving more effective decision-makers. Refah has built up a reputation for efficiency in the cities – including Istanbul – it runs, and wants to replicate this on a national level by improving infrastructure and basic services.

It might even carry out pro-business policies, such as privatisation, to please its voters among the owners of small and medium companies and the traders of central Anatolia.

Exposure to the outside world may also be helping. In August, Mr Erbakan visited Iran and south-east Asian countries, including Moslem Malaysia and Indonesia. A businessman says: "The Refah people saw countries that were successful like Malaysia and Indonesia, but were shocked by the poverty and disorganisation in Iran."

Members of an International Monetary Fund delegation which visited Turkey in October spoke of "building bridges to Refah." Mr Erbakan vilified the fund when in opposition, but is more conciliatory now.

The army, that bastion of secularism, has kept Refah in check. It made Mr Erbakan agree to a second military agreement with Israel. He even signed a decree purging suspected fundamentalist officers from the army. Security hardliners made Refah backtrack on promises to grant limited autonomy to Kurds in the south-east, where a bitter separatist conflict rumbles on.

Some analysts argue Refah will expel its fanatics and try broadening its electoral base by moving to the centre. It took only 21.4 per cent of the vote in last December's election. Mr Erbakan says the ideals of Kamal Atatürk, founder of the secularist republic, "remain our guide".

Markets are accepting lower political risk premiums, which should help lower inflation and give the government more time to sort out the economy.

Turkey needs strong leadership to reform the economy. But Mr Erbakan's team understand little about how markets work. Policy announcements are bizarre, such as plans to launch a new currency, the "Islamic dinar", or balance the budget by next year.

The government is divided. True Path holds half the cabinet seats and divides responsibility for the economy with Refah. This is a recipe for inaction. A businessman says: "One minister says one thing and another says something else. Everyone is playing politics. Nobody is really in charge."

Mrs Çiller's credibility is fraying badly and with it her claim of acting as a moderating influence on Refah. In November, a car crashed carrying a wanted gangster, a top policeman and a True Path MP. Only the MP survived and immediately went to ground, confirming widely held suspicions of rampant corruption at the core of power.

The coalition between Refah and the secularist True Path is inherently fragile. Either partner could scrap the alliance without warning, risking another lurch deeper into political uncertainty.

Turkey is becoming dangerously polarised between haves and have-nots, between secularists and Islamists. Most towns boast new mosques. More women wear ritual headscarves, some even opting for the black chador shroud. Insecure Kemalists have become shriller in the defence of secularism.

A large and growing portion of the population is marginalised. Mr Selim Oktar, general manager of Strateji Mori, a polling company, says these poor, ignorant people have no faith in the established order. He warns: "They want Refah to be more radical. They see that the system is not working for them, that it is corrupt and they want an alternative."

The secular elite believes the government will fail. Many are pleased because Refah would be discredited as a viable alternative to established parties. However, these have produced no credible leaders of their own. If the government is weak and divided, the opposition is even more so. The inept Mr Mesut Yilmaz, leader of the opposition conservative Motherland party, has become a laughing stock. The left is split between two parties.

Tormented by a dysfunctional economy, lacking leadership from the secularist camp and feeling spurned by the west, it is hardly surprising that Turks should turn against the established order. Yet Refah's vision of a just society is riddled with inconsistencies and contradictions. And Refah is proving just as incompetent as its secularist predecessors.

Turkey is further than ever from a consensus on how to build a stable and equitable modern society.

Turkish parliament

December 1995 election result

	Share of votes %	Number of seats*	
Government			
Refah	[illegible]	[illegible]	[illegible]
True Path	[illegible]	[illegible]	[illegible]
Opposition			
Motherland	19.7	128	Conservative
Democratic Left	14.6	73	Social democratic
People's Republican	10.7	49	Social democratic
Independents	[illegible]	[illegible]	
Others	[illegible]	[illegible]	
Total	100	550	

* Parliamentary seats as of November, party affiliation changes frequently

PROFILE Efes

Knowing uncertainty

The strategy is to expand and diversify, backed by foreign investment

If there is one thing Mr Ilker Keremoğlu thinks he can do better than his international competitors, it is understanding and coping with uncertainty. Mr Keremoğlu is vice-president of Efes Pilsen, Turkey's biggest brewery. Efes is a midget compared to European and US beer giants, but it may be ahead of them in Russia, one of the world's last great untapped beer markets.

Efes is investing $130m to build a state-of-the-art brewery in Moscow in alliance with the city's town hall. It will be Russia's largest brewery when it becomes fully operational in 1999.

Mr Keremoğlu reckons Efes' growth in Turkey, one of the world's less stable markets, and experience in exporting to the former Soviet bloc for years give it an edge over competitors. He says: "We are able to understand [the people] better than westerners."

Business in Turkey has taught him to cope with the unexpected: "Political instability, economic instability is nothing unusual for us. Inflation of 80 or 100 per cent does not make much difference either way. We have developed skills of flexibility, adapting to changing circumstances very quickly."

Management consultants would probably have advised Efes to diversify into safer, mature markets to counter the risk of operating in Turkey, where it already controls 75 per cent of the market. Instead, it decided to invest $200m in the former Soviet bloc. Efes owns breweries in Romania and Kazakhstan plus the Moscow brewery. It has Coca-Cola franchises in Ukraine and three central Asian republics.

Admittedly, Efes took one "safe" decision by buying a one-third stake in Coca-Cola's wholly-owned Turkish bottling and distribution company. Mr Keremoğlu will not give figures, but says Coke consumption in Turkey is growing at "double digit rates" – much more than the growth in beer consumption. The deal also reduces the company's reliance on beer, now that Turkey has an Islamist-led government that abhors alcohol.

However, analysts criticise Efes for having built too much capacity in Turkey, a market with limited growth potential, and expect its relationship with Coca-Cola to yield rewards only gradually, although it could benefit from partnership deals with international breweries targeting the Turkish market. Mr Keremoğlu hopes expansion and diversification will raise annual sales to $1bn by 2000 from $307.9m now, with half the revenues coming from overseas. Efes' parent company, Anadolu Endustri Holding, is itself diversifying more into the car and office equipment industries.

Efes has developed sophisticated, by local standards, financial systems to support its foreign investments and share risk. After Efes has sewn up a project it sells stakes in the operation to foreign institutional investors at a premium. Eventually, it will reduce its stake in the companies to 51 per cent.

These operations are insured for political risk by the World Bank's MIGA foreign investment guarantee scheme, leaving Efes to handle the commercial risks.

John Barham

Customs union: by David Tonge

The honeymoon quest

Consumers may have benefited, but small companies complain of terms

Eleven months into the customs union with the European Union and both sides are asking what happened to the honeymoon.

For Europe, it has been a period of disappointment at the failure of Turkey to make the advances in human rights and democratisation promised in 1995 and of concern at the quality of Turkey's economic management.

For Turkey, the EU's commitments to improved political dialogue and increased aid flows have been overtaken by confrontation with Greece over the Aegean and Cyprus. To Ankara, the EU has appeared to tilt towards Greece, not least with the Florence Council declaration of EU solidarity with Greece, inviting Turkey to submit the Aegean dispute to the International Court of Justice at the Hague. This declaration was Greece's price for allowing disbursement of the Ecu4.6bn grants and Ecu3.5bn loans available from 1996 to 12 non-EU Mediterranean countries under the Mediterranean Development Assistance Programme (Meda).

Greece continues to block some EU aid programmes. In addition, the European Parliament is criticising all EU aid to Turkey not linked to improved human rights and democratisation, a stand to which the European Commission has to pay increasing attention.

These problems have caused strong reactions in Turkey. "We cannot excuse the way that Europe is failing to honour the promises made to Turkey because of its own internal problems and failing to show the necessary efforts to overcome these," says Mr Meral Gezgin Eris, president of Iktistadi Kalkinma Vakfi, which co-ordinates the Turkish private sector's policies on Europe.

Headlines on these have diverted attention from the solid progress made in implementing the customs union in aid and trade. In 1996, Turkey signed contracts for Ecu250m of European aid, mainly for environmental and infrastructure projects.

In total, it is currently eligible for programmes totalling $2.5bn by the year 2000. And the trade side of the customs union has been flourishing.

Mr Michael Lake, the EU ambassador to Turkey, says: "Our estimates show that Turkey will be the EU's seventh-largest trading partner in 1996, ahead of Poland and just behind Russia." He forecasts that the EU's share of Turkey's imports will rise from 47 per cent to 52 per cent and the EU's share of Turkey's exports from 51 to 52 per cent.

This implies a one-fifth increase in Turkey's exports to Europe between 1995 and 1996 and a striking one-third increase in its imports from Europe, with the increase led by investment goods. Where trade is concerned, the benefit has thus largely been Europe's – Turkish manufactured goods already had duty-free access to the EU and it was mainly on textiles that restrictions existed. Europe has now abolished quotas on Turkish textiles, though, for the time being it retains, and uses, its anti-dumping regime. This is to be abolished as soon as Turkey meets its obligations to set up a competition board.

Source: State Institute of Statistics

Less progress has been seen where direct investment is concerned. Figures for the first eight months of 1996 show a dramatic drop. Mr Cem Duna, former Turkish ambassador to the EU, explains this, saying: "For a surge in investments, more than formation of a customs union is required. You also need political stability, capacity to solve problems both at national and international level, rational decisions, concerted action, overall awareness, mutual understanding and the desire for co-operation from other parties."

However, some changes in the pattern of investment can already be seen. A few multinationals with manufacturing facilities in Europe now prefer to supply Turkey from these, not least in consumer goods. But a more general pattern has been for the larger European companies such as AEG, Bosch and Electrolux to increase the priority they give to Turkey and its market of 60m. And for the larger US and Japanese companies to treat it as a base both for Europe and the new markets of central Asia.

General Motors, Toyota, Honda and Mazda are all present in the vehicles sector and companies ranging from Chase Manhattan to Coca-Cola now run both national and regional offices out of Istanbul.

Customs union may have been good for the Turkish consumer, but many small Turkish companies are complaining of market conditions being made harsher. The EU is trying to assist here with programmes to support small and medium enterprises (SMEs). "We are busy setting up a regional information network," says Mr Lake: "We have opened three public information relays already, in Gaziantep, Diyarbakir and Izmir, and by the end of the year we hope to have opened also in Kayseri, Bursa, Trabzon, Denizli and Mersin, and even a small voluntary office in Iskenderun."

It is the SMEs which supply the bedrock of support for Turkey's ruling pro-Islamic Refah party. Before coming to office, this opposed Turkey's membership of the customs union. Now, despite the problems of the SMEs, it is taking a softer line. This also reflects increasing acceptance that customs union is an opportunity not a panacea and that it makes more urgent the need for proper economic management.

"High inflation and changes in Turkey's foreign exchange rates mean that Turkey has not been able to benefit fully from customs union," according to Mr Hassan Goozal, member of the board of the Bilkentli Businessmen's Association in Ankara. However, partisan calls for a renegotiation of the terms of the customs union have still not been stilled. Each month with a growing trade gap adds to their support.

David Tonge is managing director of IBS Research & Consultancy which specialises in marketing research and business-to-business research for leading companies in Turkey and central Asia.

■ **Economy:** by John Barham

A perpetual state of quasi-crisis

The black economy keeps the formal system afloat; but radical reform is needed

Turkey's economy seems to be in a perpetual state of quasi-crisis. Heavy inflation, extortionately high interest rates and one of the world's most worthless currencies are all symptoms of profound imbalances, themselves caused by unsustainable public finances.

The basic problem with the Turkish economy is no longer simply that government overspending is causing inflation. It has become more dangerous than that: financing the treasury's relatively small domestic debt has become so expensive that it threatens to destabilise the rest of the economy.

Mr Gazi Erçel, central bank governor, warns that "debt service payments have to be financed with new borrowing. In other words the public sector adds to its deficit in order to finance its previous deficit, completing the vicious circle known as the 'debt trap'."

In October, the treasury considered it a triumph to sell $3.27bn-worth of one year bonds yielding 122 per cent – nearly twice the government's 1997 inflation forecast. A month earlier it paid a hefty 2.6 percentage points over Libor to raise $1.12bn in foreign exchange-linked three-year bonds.

Mr Erçel points out that the treasury actually runs a large primary budget surplus of 2-4 per cent of GDP. Unfortunately, the cost of servicing its $30.8bn local currency debt is expected to exceed 8 per cent of GDP this year – a record.

Interest rates are high and maturities short partly because Turkey's financial markets are shallow: the assets of its banking system are less than $67bn, too small to roll over the treasury's debts twice a year at a reasonable cost. Turkey's sub-investment grade credit rating limits its ability to borrow overseas: it has become a net repayer of foreign debt.

Local markets also demand some of the world's highest risk premiums because they mistrust the government's inflation and exchange rate targets. The government forecasts 65 per cent inflation in 1997. Financiers expect next year's inflation to come in at between 80-100 per cent. Confidence is balanced on a knife edge. Strife in the coalition or a resort to populism would send interest rates soaring.

But business executives sneer at alarm over what appears, to outsiders anyway, to be a financial time bomb. Turkey may court disaster but it never sinks into hyperinflationary chaos. In 1994, a balance of payments and financial market crisis caused a 6 per cent contraction in the economy. Last year, it rebounded with growth of 8.1 per cent and economists expect a repeat this year, driven largely by an investment boom and strong domestic demand.

The unrecorded economy, believed to be 30-50 per cent the size of the formal economy, helps explain Turkey's resilience. Statistics look less awful when the unofficial economy is taken into account. A surge in imports (about 30-50 per cent are capital goods) is widening the trade deficit to about $20bn. Yet the record $7bn current account deficit expected for this year looks manageable partly because the central bank estimates unrecorded exports, mainly to former eastern bloc countries, at $5bn-$10bn.

But Goldman Sachs, the New York investment bank, says the fiscal deficit may hit 13 per cent of GNP this year. Even allowing for the underground economy this figure would drop to maybe 9 per cent – a dismal performance.

Market turbulence will continue while public finances remain disorderly. A US banker based in Istanbul says: "There is not much margin for error. Everything must be perfect. But nothing ever is. All you need is a treasury [bill] auction to go wrong and you have got $3bn going into foreign currency."

International credit rating agencies warned in July of a downgrade unless the fiscal picture improves. Standard and Poor's rates Turkey's long-term debt B+. An International Monetary Fund delegation left Turkey in October, concerned about rising inflation and fiscal deficits.

The government did not help by drafting a balanced budget for 1997 based on unrealistic revenue and spending assumptions.

A diplomat commented: "Refah has no idea about economics or how to run a modern economy."

Mr Necmettin Erbakan, the prime minister, has resorted to desperate gimmicks to attract hard currency to Turkey, such as allowing Turks to import used cars tax-free if they deposit DM 50,000 at a state bank for a year.

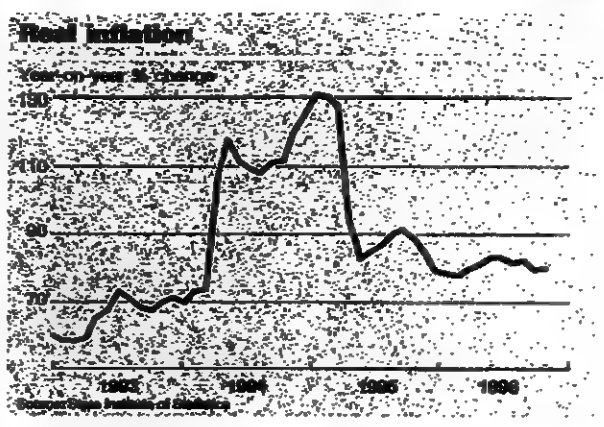
Paradoxically, Turkey has few fundamentally serious economic problems (although analysts worry about the social security system).

The government could quickly wipe out its budget deficit by improving tax collection. Istanbul University's Professor Izzettin Onder says tax revenues will be equivalent to less than 16 per cent of GNP this year.

Some financial market analysts expect the government's interest bill will decline if political uncertainty recedes, helping to drive the budget deficit down to $13bn from $15bn this year. This would bring lower inflation and interest rates. Interest on treasury bills has halved from 240 per cent a year in January. Falling inflation and interest rates would boost investment and deliver sustained growth.

Public spending

Real inflation



Source: State Institute of Statistics

Social insecurity problem

Turkey has a young population, but its social security problem is just as dramatic as greying Europe's. The government's three social security funds have a Soviet-like tendency to destroy value: one study found that contributions between 1965-1995 lost 98 per cent of their value.

In reality, there is little distinction between social security and the government budget: the treasury uses social security funds to meet its current spending and covers the resulting deficit with subsidies. Last year's social security deficit was equivalent to nearly 2 per cent of GDP.

This is not all. Turkey allows men to retire after 25 years' contributions. Women can retire after 20 years. Turkey's average retirement age of 45 is the lowest for countries with similar pay-as-you-go schemes. Evasion is rife.

If nothing is done, the social security schemes will require larger and larger subsidies. This year's deficit will probably exceed $4bn and require subsidies equivalent to one-eighth of public spending. By 2000, subsidies will reach one-quarter of spending. The government dropped attempts to raise retirement ages in the face of furious union protests.

The longer reforms are postponed, the greater the pain of change becomes. Yet, local and international financial groups also see an opportunity in marketing and managing private pension plans.

■ **Investment:** by John Barham

Riskier than usual

Foreign investors need reassurance in the face of political and economic worries

Investing in Turkey is always a hazardous business. These days it is probably riskier than usual. There have been three governments so far this year, the latest of which is led by an Islamist party whose commitment to western-style capitalism is mixed at best. Inflation, interest and exchange rates are as volatile as ever. Foreign competition is becoming more aggressive, endangering companies' formerly captive domestic markets.

Yet Turkish companies are busy investing, driven by fear as much as optimism. Mr Albert Nekimken, director of research at Istanbul's Demirbank, says: "Foreigners are holding back because of the [risk] of crises. But [locals] say 'what else can we do? We are here to stay'."

Investment in Turkey has averaged about 25 per cent of GDP over the last ten years, a reasonable rate given the chaotic economy and similar to most other developing countries. Spending on machinery and equipment picked up sharply last year as companies prepared for a competitive onslaught with the beginning of the EU customs union in 1996.

Investment has remained high this year, although it should slow down in 1997. Government officials say capital goods imports rose 71 per cent in the first quarter. They expect them to account for about 30-50 per cent of Turkey's total imports of $42.5bn-45bn this year.

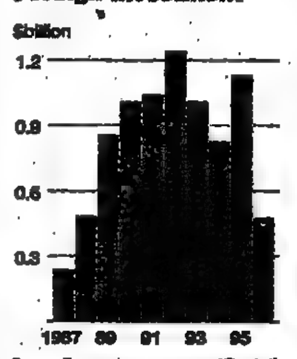
Investments are most noticeable in areas where Turkey is already strong, such as textiles. There is no reliable data for this fragmented industry, but there is abundant anecdotal evidence of companies spending heavily to upgrade technology and capacity.

Big Turkish groups have the resources and patient shareholders to ride out Turkey's unpredictable economy. Mr Mehmet Ali Berkman, president of Arçelik, a white goods maker owned by the big Koç industrial group, says: "Our shareholders are quite patient. They can wait to get dividends for a long time. They are willing to wait and they are willing to invest."

But Turkey's investment rate is probably insufficient to deal with the growing competitive challenge, particularly from fast-growing Asian economies.

However, investment is closely linked to the wider economy's switchback performance. Investment last year was considerably lower than in 1993 when a burst of growth pushed capital spending up to Asian levels, only to drop abruptly in 1994 when the economy crashed. Spending on machinery and equipment in 1995 was still less than in 1993.

Foreign investment



Source: Treasury *First half

Instability deters foreign investment. Investment by EU companies was expected to become the locomotive of growth following approval of the customs union. But inflows slowed after a brief surge last year and are unlikely to exceed $1bn in 1996. Turkey has rarely attracted more than $1bn a year in inward investment, a tiny proportion of foreign investment in developing countries. By contrast, Mexico, just one position above Turkey in Euromoney's international risk ranking, is expected to receive $4bn in foreign direct investment this year.

Yased, the foreign investment association, warned that "due to political uncertainty, foreign capital has slowed to a point of cessation and those with [planned] investments have postponed future involvement for some time now".

It added that nearly all foreign investment now consists of reinvestment of profits by companies already operating in Turkey, while the proportion of fresh inward investment has declined. Yased says that in 1993, reinvestment accounted for just over half of total foreign investment. Last year it made up 93 per cent of foreign investment. Yased concludes that this shows international business has "no confidence in Turkey's current structure".

Turkey also suffers collapsing infrastructure, poor education standards and shortages of skilled workers and managers. Productivity is low. It struggles with bureaucratic inertia: officialdom enforces longstanding, but often trivial regulations but is less strict in implementing new codes protecting intellectual property, defending consumer rights or enforcing competition. Corruption is widespread.

Foreign investors have not completely turned their backs on Turkey. Investment bankers report that international companies' interest in Turkey is resuming after a long pause following the calling of general elections in September 1995.

Global companies cannot afford to ignore Turkey. It is a large market of 62m potential consumers. It has a young and rapidly urbanising population. Penetration rates for products ranging from cars to washing machines are low. A growing middle class has adopted western consumer styles.

Turkey is a good low-cost manufacturing base. It has duty free access to the EU and is close to markets in eastern Europe, the Middle East and central Asia.

It will not fulfil its promise without restructuring the public sector, rebuilding its infrastructure, improving education standards, enforcing commercial law and stamping out corruption.

■ **Infrastructure:** by John Barham

From bad to worse

The opportunities are there but investors are wary of build-operate regulations

Traffic jams, water shortages, power cuts, congested telephone lines, bad roads, housing shortages: Turkey's infrastructure is bad and rapidly getting worse. The government's investment budget has dwindled over the years, instead of increasing to meet the needs of a growing, urbanising population.

The government has not met its electricity investment targets once since 1990. Officials say Turkey needs to invest about $2bn-3bn a year to meet demand growing by 9-11 per cent a year. However, last year it invested only $726m. Power cuts have become a feature of daily life in many big cities.

The government is even importing electricity from Bulgaria and Georgia. It is reopening three obsolescent power stations along the Mediterranean and Aegean coast. Courts closed them because the east European-designed lignite-burning plants threaten the local environment and tourist beauty spots.

Companies have begun installing their own power systems to provide electricity for their factories and selling excess production to TEAŞ, the state electricity company. These plants now provide about one per cent of Turkey's electricity but are hardly the solution to the country's power shortages.

A powerful nationalist, statist establishment in the bureaucracy, courts and parliament has steadfastly resisted allowing private, particularly foreign investment in infrastructure. Although private operators could overcome the worst infrastructure bottlenecks relatively quickly given the chance, Ankara fears losing control over key segments of the economy – and the political patronage which it confers.

Opponents have used the courts to block the government's build-operate-transfer (BOT) scheme designed to attract private finance to infrastructure projects. Although courts have approved 16 such projects, only four have begun construction, the largest of which is the $1.3bn, 672MW Birecik hydroelectric power plant on the Euphrates river.

A formidable business lobby that includes some of the world's biggest power companies believes Turkey now has no other alternative to private sector participation.

In the summer, the government approved regulations allowing investors to build and own power stations outright, with no requirement that they be transferred to the state.

The energy ministry announced that six gas-fired plants with 5,200MW capacity, would be put out to tender under the new build-operate rules, with planned commissioning dates ranging from 2000 to 2005. Companies are to submit bids in December, complete with feasibility studies, detailed plans and project finance packages.

In spite of the short deadlines, 57 bidders have prequalified. They must meet energy ministry specifications about size and general location. Although issues such as a contractor's credibility and experience, the plant's technology and emission levels will also be important, companies will compete mainly on the price of electricity they will sell to TEAŞ.

A further seven plants with 4,600MW capacity are to be built at a less hectic pace and are due to come on stream in 2005.

Some of the biggest names in the international energy industry, including the world's oil majors are submitting bids.

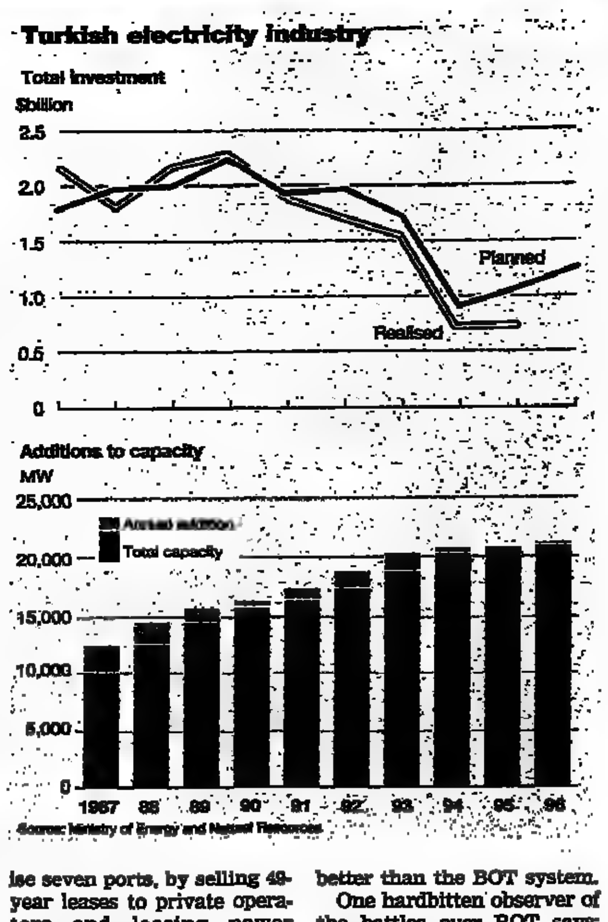
As an oil executive says: "There are a lot of problems here but when you look at the growth potential you see great opportunities."

Electricity demand in Turkey is still very low, in spite of years of strong growth. Consumption is only one-fifth of the OECD average, indicating that expansion is likely to remain strong.

Although investors are wary of Turkey's Islamist-led government, they hope Refah's emphasis on public service will counterbalance the party's xenophobic, populist tendencies. A banker says: "Understanding of the urgency is there, and the commitment is there so my thesis is that things will be done." A positive indication of this is a decision to privatise seven ports, by selling 49-year leases to private operators and leasing power plants to private companies for completion.

But others are less certain that the new build-operate rules are capable of withstanding attack from the statist establishment any better than the BOT system.

One hardbitten observer of the battles over BOT says: "The end-game will be that the lights will start going out. The government will borrow to build power stations on its books, which is precisely the opposite to what it wanted."



Source: Ministry of Energy and Natural Resources

Turkish courts

In Turkey, virtually any service traditionally carried out by the state but now performed by a private company constitutes a concession and the law requires Turkish courts – often hostile to private foreign investment – to approve each concession and to monitor it for compliance with the law during its life. Disputes must be settled in Turkish courts, not by international arbitrators, as investors and their bank lenders prefer.

This bizarre legal doctrine has delayed private infrastructure projects for years, defying attempts by ministers to devise a legal wording allowing badly-needed projects to proceed. Courts have approved only 16 build-operate-transfer (BOT) infrastructure deals. Under the BOT model, first developed in Turkey, a company builds a project, operates it for fixed period to earn a profit, then turns it over to the state.

The government in May replaced the BOT model with a new set of rules to overcome the concession problem. These allow companies to build and own power plants outright. They make a distinction between electricity production and distribution. Officials argue that unlike distribution, generation does not constitute a social function of the state and therefore is not a concession. BOT projects now in the approvals pipeline can be converted to the new build-own (BO) rules, but these will not apply to hydroelectric dams.

Lawyers are not sure the BO decree can withstand attack. They point out inconsistencies. The decree modifies a law, making it vulnerable to claims the government is overruling parliament. Neither does it necessarily settle the concession issue or guarantee international arbitration.

Furthermore, banks may consider the contract between TEAŞ and its electricity suppliers too weak to support large international loans to a developer. This is because TEAŞ would be entitled to halt purchases "in case of breach of contract." Lawyers warn breach of contract is a term that can be interpreted very loosely.

PROFILE Şahinler group

Trinkets to textiles

Fourteen years ago Mr Kemal Şahin was a hard-up metallurgy student at Aachen University in Germany. His studies, funded by a Turkish government scholarship, were ending and the only way to remain in Germany was to go into business.

He opened a small store selling tourist trinkets. Soon he was importing clothing and textiles from Turkey, making deliveries and driving trucks along Europe's motorways himself.


Kemal Şahin: a motivator

Today Mr Şahin, 41, is a multimillionaire. His privately-held Şahinler group expects sales to rise 15 per cent this year to DM1.3bn and more than double to DM3bn by 2000. It employs 7,500 people and is Turkey's biggest clothing and textile exporter. Profits, he says with a twinkle in his eye, "are a state secret."

Şahinler is a private company and divulges little financial data, making it difficult to assess its true strengths and weaknesses or potential for further growth. But Mr Şahin says profits are as good as ever and confidently predicts that by 2000 Şahinler will be a billion-dollar company.

Mr Şahin began by deploying more than the immigrant's traditional virtues of hard work and business cunning – these qualities may be enough to build a medium-sized business, he says, but not a large group.

Success requires management ability, a willingness to delegate power and responsibility. Turkish bosses are notoriously authoritarian. But Mr Şahin claims he is different, genuinely seeking to motivate a young generation of senior executives.

Managing growth is another big challenge. Small and medium companies often expand too fast and become overextended. Others are too risk-averse and avoid loans, which stunt growth. Mr Şahin says he steered a middle course, growing through trade credits.

He saw that retailing clothing in Europe could be more profitable than making clothes in Turkey. He built up a retail network in Europe, mainly in Germany, then moved upstream, producing clothing and textiles in Turkey.

He gradually built an integrated textile and clothing empire handling almost every production stage to sales and marketing. The group has invested aggressively in new factories in Turkey and in outlets and distribution networks in Europe, now financed mainly from internally generated cash. But retailing remains an important part of the Şahinler group: it has 180 low- to mid-market outlets in Europe, mainly in Germany.

He says operating costs in Turkey are rising. He has responded by moving production of "lower-cost products [to the Far East]. Making [some] basic products is not possible in Turkey any more."

John Barham


As Turkey grows so does the public demand for transport


Trams provide some relief from appalling roads Pictures: Nic Harman

■ **Cars:** by John Barham

Leaving protectionism behind

Companies are slow to react to the outside competitive challenge

Most governments obsessively protect their car industries, normally considered the crown jewel of any industrial economy. Until a few months ago, Turkey was no exception.

In August, Mr Necmettin Erbakan, the prime minister, desperately looking for ways to raise hard currency, ruled that Turkish citizens living abroad could import second cars to Turkey free of taxes and duty if they deposited DM50,000 for a year at state-owned Ziraat Bankasi, which would also pay them 10 per cent interest.

The plan provoked a predictable burst of anger from local car companies. Mr Rahmi Koç, chairman of Koç Holding whose Tofaş joint venture with Fiat of Italy holds one third of the market, warned: "We are looking at the economic situation of Tofaş. If there is a drop in sales, of course Tofaş's workforce will be reduced. And ripple by ripple, that will spread to suppliers."

Passenger cars

Production

	units
1991	195,574
1992	265,245
1993	348,095
1994	212,651
1995	233,412

Source: OSD

If they can afford it, most Turks would prefer a second-hand Mercedes-Benz (which sells for $30,000) to a brand new Tofaş Tempra which goes for about $15,000. OSD, the car industry association, warned the government that 100,000 used cars – nearly half local output – would flood the market, further damaging local industry at a time when output was already depressed.

The economy may be growing but car output has remained flat for three years. Companies have cut shifts and sacked hundreds of workers.

Mr Erbakan's decision is all the more puzzling because the outgoing government fought hard to block second-hand imports for five years under Turkey's customs union agreement with the European Union.

But with only a few weeks before it expires, his scheme has attracted relatively little interest. Only about 2,000 vehicles are likely to be imported so the government is planning to extend its offer to all Turkish citizens. Even so, car company bosses now say the scheme's impact will be limited.

What does seem certain is that competition will increase remorselessly with the customs union, falling import barriers on third country imports and rising inward investment by Asian carmakers. Until very recently, local manufacturers could charge premium prices for obsolete cars because they faced little outside competition. Now, imports hold one-fifth of the market.

After a slow start, OYAK-Renault, an affiliate of the French carmaker, and Tofaş – which once held a quasi-duopoly – are gearing up to introduce new models, increase imports from France and Italy and export more.

Renault is planning to spend $350m to introduce its Mégane range in Turkey as well as increasing capacity and upgrading technology. Mr Jacques Chauvet, Renault's general manager, says: "The Turkish market is becoming more open and this is something we have to live with. We feel confident that the market will be in the range of 450,000-500,000 [units a year] by 2000 and to be ready we have to invest now."

Tofaş, which invested $500m in the last five years is planning to invest another $500m to launch a new model in 1997. However, analysts say disputes between Koç and Fiat have weakened the company. Some say the two could even part company, a rumour Koç strongly denies.

Market analysts criticise both companies for reacting slowly to the competitive challenge. Tofaş took too long and spent too much gearing up to produce the now obsolete Tempra and will only have a new model – either the Palio or Marea – ready two years after the customs union.

Still, Turkey has not recovered from a collapse in the market in 1993, when production fell 40 per cent and has yet to recover. This makes it hard to justify big investments. Sales may well double by the end of the century, but in 1993 analysts predicted annual car sales of 1m units for 2000.

Carmakers are still hoping sales could zoom back if interest rates fall and the government cuts taxes. New cars currently pay 45-75 per cent value-added tax, compared to 18-23 per cent in European markets.

Manufacturers are captivated by Turkey's demographics. As well as having a young, urbanising population, Turkey's car ownership rates remain far below European levels: it has about 37 vehicles per 1,000 people, compared to an EU average of 350-400.

Aggressive Asian companies are setting up "transplant" factories in Turkey to capture a chunk of this potentially lucrative market as well as exporting to the EU and surrounding markets in the Middle East, Balkans and Central Asia.

Toyota already has a factory near Istanbul which holds nearly 10 per cent of the local market. Honda and Hyundai, producer of Turkey's best-selling imported car, are both setting up factories. Suzuki is rumoured to be looking for a suitable local partner as is Mazda and several South Korean companies.

The industry worries about overcapacity if all these investments actually go ahead. Tofaş, Renault and Toyota already have installed capacity of 500,000 units a year.

Analysts doubt whether there is room for much more, even allowing for rising exports. Ms Ayşegül Bensel, automotive analyst at Global Securities, says that new entrants "may not make as much money as they are imagining."

Trucks are gearing up

If the outlook for passenger cars is mixed, business in commercial vehicles is improving. Turkey moves nearly all its freight by road, so demand for commercial vehicles is closely linked to economic growth. If Turkey grows, so do sales of trucks and buses. Truck sales jumped two-thirds to 19,826 units last year.

Analysts say imports should affect local commercial vehicle companies less than passenger carmakers. Turkish trucks and vans are designed to resist the country's appalling roads and extreme climate, which often defeat more expensive imports.

Otosan, a Ford-Koç joint venture which makes cars, vans and trucks, increased output by more than half in the first six months of this year. Global Securities expects it to increase net margin by one-fifth to 18 per cent this year.

Sound management and investments in technology have boosted productivity. Sales per employee have doubled since 1988. Still, productivity growth has stagnated since 1994, when output slumped and Otosan's small capacity denies it economies of scale, limiting its ability to raise efficiency.

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■ **Banking:** by John Barham

Treasury's cash dispenser

Turkish banks are not alone in seeing chances in retail and corporate banking

Being a banker in Turkey often looks as easy as it is well rewarded. For years, Turkey's banks have acted as little more than cash dispensers for the treasury, charging interest of 20-50 per cent a year in dollar terms for their trouble.

This generalisation is only a little unfair. In the first half of the year, private banks' interest income on securities (overwhelmingly short-term treasury bills) rose by half to $3.33bn.

Akbank, Turkey's biggest private sector banks reported $415.6m-equivalent pre-tax profits for the year to September, a 35 per cent increase in dollar terms.

Most of its earnings came from its portfolio of high-yielding government paper.

Mr Erol Sabanci, managing director and a member of the family that owns the bank, says: "Being liquid in [volatile] market conditions means you can adjust yourself easily. If you are not liquid, your ability to adjust suffers."

Being able to adjust quickly is a crucial advantage in a financial system where years of heavy inflation have led to generalised short-termism. Last year, less than 10 per cent of local currency deposits had maturities of a year or longer. Foreign currency deposits made up over half of liabilities. Interest rates veer up and down sometimes with little relation between asset classes in what Mr Sabanci calls "interest rate anarchy".

Banks are stronger than they were two years ago, when a balance of payments crisis and mismanaged treasury bill auctions caused a financial system breakdown. Goldman Sachs, the New York investment bank, commented in a recent analysis of the Turkish banking system that while "its health [remains] inextricably tied to that of the nation's finances" stricter supervisory standards, government-imposed limitation of open foreign exchange positions and stronger capital ratios have made banks stronger than in 1994.

Profits are growing nicely. Listed banks posted a real 30 per cent rise in net income in the first half of 1996 to $713.1m. The Turkish Banking Association reports a halving in non-performing loans to $215m in the first half.

Banks are funding more through their retail network, reducing reliance on inter-bank and foreign borrowing. Although extending branches is expensive, local funds are much cheaper in an inflationary environment than borrowed funds and more reliable in times of crisis.

A bank analyst comments "if you do not make any big mistakes you are making money." But he warns: "Everyone knows [securities income] will not go on. The question is when to get out. At the moment everyone is enjoying the high [yields]."

However, some banks are also positioning themselves for the day the treasury bill bonanza ends. Big banks like Yapi Kredi Bankasi (YKB) and Garanti Bankasi, are reducing their exposure to government securities and emphasising traditional banking.

Mr Burhan Karaçam, president of YKB, which has a large consumer banking franchise, says: "We are looking at our markets with a long term perspective. Time will come when the government will not borrow so heavily and we want to maintain a presence in markets we have built up."

Competition is intense and margins are narrowing. Although private banks' net profits rose one-tenth to $838m in the first half, this was roughly in line with GDP growth.

However, low or even non-existent penetration rates for many basic products still provide a strong base for profit growth. For instance, Turkey is the world's fastest-growing Visa credit card market. Both YKB and Garanti are investing in new operations centres stuffed with state-of-the-art technology to cut costs and improve market responsiveness. However, these retail products will only really take off when inflation declines substantially.

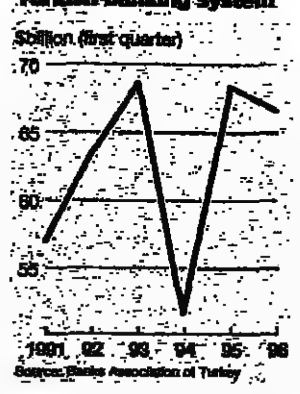
The lure of easy money has drawn several new participants into the market. The government no longer issues new banking charters, so existing banks are sold at considerable premiums. For instance, the industrial Anadolu group paid $80m for 80 per cent of Alternatifbank. However, one insider reckons Anadolu may see profits of just $1m a year on its investment in Alternatifbank.

Turkish banks are not alone in sensing the opportunities in retail and corporate banking. Citibank has included Turkey among its top nine most important emerging markets. Mr Dardo Sabarots, general manager, says Citi is beefing up its local balance sheet with $55m to boost operations and integrate its branch into the bank's worldwide customer network. Mr Sabarots says "we will have the same branch in different countries in the same way as McDonald's. With your Citicard you can manage your current account from here, even if your account is in Buenos Aires."

In spite of the local market's attractions some bankers think business is getting too risky because loans are too cheap. A senior European banker says pricing on international syndicated loans "has dropped to unattractive levels. We have started turning down borrowers. The credit quality is there but is the country risk priced in?" Solid local banks are raising funds paying as little as 0.5 per cent over Libor, sometimes to finance speculation in treasury bills.

Lurking in many bankers' minds is the risk of a repeat of the 1994 crisis. Although the large banks are stronger than before, medium-to-small banks may not be able to withstand further upheaval. However, upsets are unlikely to endanger the banking system since the ten largest banks held three quarters of the system's assets last year.

The European banker adds: "I think there will be a liquidity crunch at the bottom tier. I think the treasury is aware of this weakness. There will be forced mergers and some very elegant patching up."



A trend gaining impetus

Now that Turkey has an Islamist-led government, it seems hardly surprising that non-interest Islamic banking should be gaining a further impetus. In October, Asya Finans, a venture sanctioned by Fethullah Hoca, a religious leader, opened its doors. Asya Finans is backed by 16 partners and $125m in capital. Müsiad, an Islamist business association, is also opening a finance house.

Turkey already has several Islamic finance houses – none has a banking charter. The largest is Al Baraka Türk. It began in 1985 with capital from local investors and from Saudi Arabia and Persian Gulf states, led by the Saudi Al Baraka banking group. It is now Turkey's largest Islamic finance house with $584.4m in assets last year.

Mr Osman Akyüz, general manager, says: "We collect money from the public on a non-interest basis and we invest this money in the real financial market to finance [companies] buying and selling goods. We put no money into government bonds."

Borrowers have a choice of a fixed term loan, which includes a hefty margin to cover inflation and Al Baraka's fees or they can lease equipment through Al Baraka. Fees vary between 9-18 per cent depending on the client and the deal Al Baraka is backing. Depositors share in the profits and losses of Al Baraka's operations instead of earning interest, through "participation accounts". Al Baraka charges a 20 per cent management fee on these accounts even if they lose money.

Islamic banks occupy a small niche in the Turkish financial system. Part of the reason for this are the mediocre returns for depositors. In 1995, the best returns Al Baraka could offer its depositors was a meagre 5.8 per cent in real terms. Its profits of $7.7m equivalent returned just 1.3 per cent on assets – less than half the banking sector average.

Money laundering investigations at Faisal Finans, a smaller Islamic finance house, have not helped improve the image of Islamic banking either. The treasury suspected Faisal Finans of recycling $80.9m in illegal funds on behalf of a textile company for $500,000 and DM400,000 in fees.

Confusion among the pious may also be holding back growth. Although Al Baraka's business is sanctioned by Islamic scholars, others claim its "fees" are no different from conventional interest charges. A financial market analyst adds that Refah spurns Islamic banks. He says Refah has "an excellent asset management program using not only interest-bearing instruments but currency and stocks."

■ **Business:** by John Barham

A second liberal phase

With trade barriers down companies must focus on fewer business lines

Turkey is entering a second phase of liberalisation that will bring profound and probably irreversible changes to the country's corporate scene.

Fifteen years ago the reforming government of Mr Turgut Ozal set Turkey on the road to trade liberalisation. The customs union with the European Union is giving liberalisation a powerful new impetus by throwing open domestic markets to international competition and imposing new regulatory frameworks.

Almost nobody is immune, be it the local grocer or Mr Rahmi Koç, head of Turkey's most powerful business empire. Turkish companies flourished thanks to limited foreign competition, hair-trigger reactions, a lock-hold on domestic distribution channels and a variety of restrictive practices, cartels and state support.

Competition and EU regulations mean an end to these bad old ways, forcing companies to begin restructuring themselves. This will require greater participation by foreign competitors and their capital, technology and management methods.

Foreign interest in Turkish acquisitions is slowly resuming after a year of quasi-inactivity after elections were called in September 1995. A New York banker based in Istanbul says his clients "are going after local market plays, looking for brands and fast-moving consumer goods. There is an increasing number of Turkish companies looking for partners. We have seven or eight transactions in the pipeline now."

Competition has already begun driving prices and margins down throughout industry. Gross margins of 40-50 per cent are still common. However, they look less attractive after allowing for Turkey's heavy inflation. Bankers say real margins are probably no higher than 20-25 per cent: not bad, but probably insufficient for companies hoping to remain independent and grow.

But Mr Mehmet Kutman, chairman of Global Securities, Istanbul's leading brokerage, argues that "capital is not a problem for companies wanting to stay in Turkey. They have accumulated enough capital over the last four to five years of high interest rates and have not invested enough or are at a scale they should be at. Their internal cashflow will be enough to keep them going in perpetuity, even if margins drop from 40 to 10 per cent. They are able to run leaner and meaner and their technology is not bad."

He mentions Arçelik, Turkey's leading home appliance maker owned by the Koç group, which has increased market share and maintained margins as trade barriers came down. Arçelik increased its market share to over 60 per cent from 50 per cent since 1989, while import duties fell from 50 per cent to zero (on imports from the EU).

However, Mr Kutman warns that companies will need to begin venturing outside Turkey if they want to grow and this will take capital. Turkey remains wedded to Mediterranean capitalism that emphasises family ownership and management and reluctance to sell equity. Mr Kutman expects this to change. He has set up a New York office to help prepare Turkish companies for US listings. Bank of New York says only four Turkish companies or banks are listed in New York in ADR form.

Growing in a foreign environment is far from easy. Raks, an electronics and magnetic tape company, expanded quickly through exports to the former Soviet bloc. However, attempts this summer to acquire the magnetic tape business of Germany's BASF backfired badly. Analysts say Raks overreached itself. BASF sold to a South Korean group instead.

Management is often weak. Business consultants say well-trained English-speaking executives are scarce, as demonstrated by their relatively high salaries and rapid job turnover. Turkish bosses are notoriously authoritarian. Attempts to impose the latest management fashion such as empowerment rarely succeed. Mission statements remain mere wall decorations in most offices.

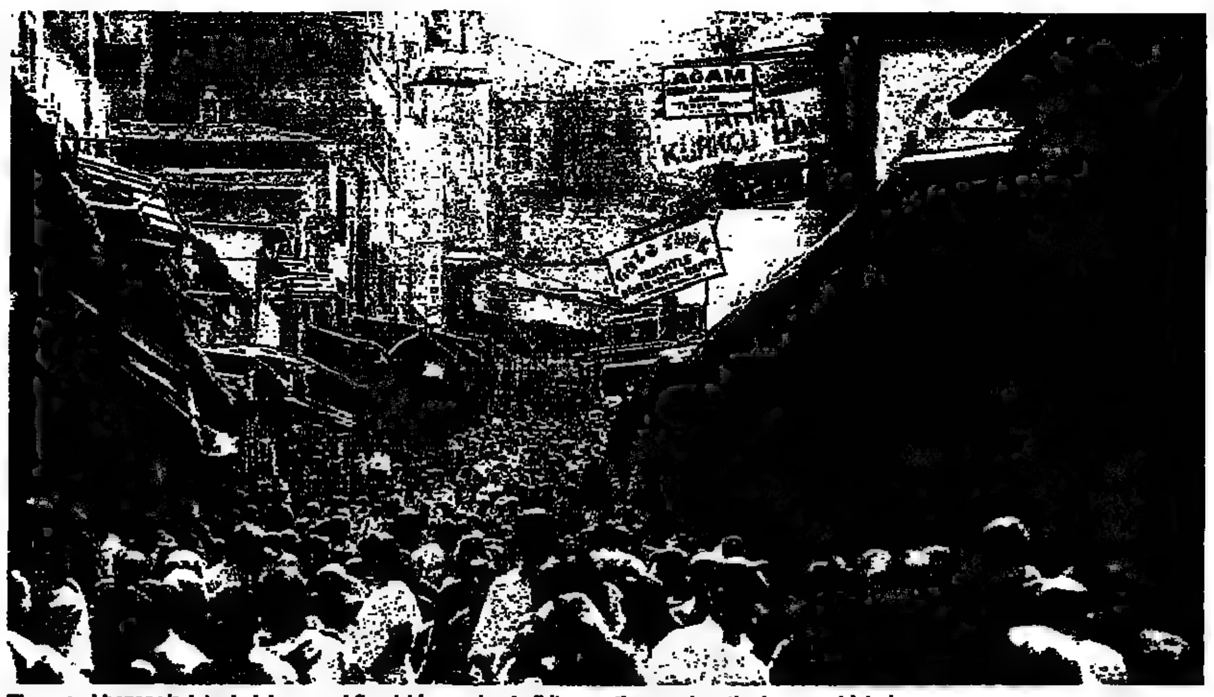
Turkey's many medium-sized, family-owned businesses are probably the most vulnerable to weak management, poor capitalisation and unsustainable margins. Their founders are either still in charge or just retiring, with all the attendant succession problems.

However, management at Turkey's top companies is often excellent. Brisa, a joint venture between Japan's Bridgestone tyre multinational and the Sabanci Holding conglomerate came first in a European quality competition. Netaş, a subsidiary of Canada's Northern Telecom came second. Analysts also rate Garanti Bankasi, a big banking group, highly for its open corporate culture.

Competition will force companies to concentrate on fewer lines of business. Turkish capitalism grew up behind high trade barriers, so even quite small groups are highly diversified, operating in a range of sectors that do not yield even token synergies.

Scale is another problem. Turkey has few companies large enough to hold their own against big global competitors. Most Turkish companies remain focused on their narrow domestic market, although exports are growing, which denies them economies of scale.

Although Arçelik has sound management, strong finances and is well entrenched in its local market, it is too small to flourish in its present shape. Arçelik's pretax profit doubled in dollar terms to $91.8m on sales of $1.06bn last year. Mr Mehmet Ali Berkman, the company's president, says he is open to joint venture deals "on equal terms" that preserve "his managerial rights."


The grand bazaar in Istanbul: busy and flourishing and not all its practices and methods are outdated

Privatisation: by Kelly Couturier

Getting used to the idea

This sector needs political stability, a new legal framework and official backing

Mr Necmettin Erbakan, the Turkish prime minister, who never liked the word privatisation when he was in opposition, has become something of a champion of the cause these days.

Faced with finding a way out of Turkey's worsening "debt trap", where about 45 per cent of the government's budget is spent financing the expanding public debt, Mr Erbakan's five-month-old coalition has demonstrated an eagerness to move forward on privatisation that is in stark contrast with the foot-dragging of the left-right coalitions of the early nineties.

Gone are Mr Erbakan's criticism of privatisation as a notion going against the grain of the populist, statist economic policies of his pro-Islamic Refah Party.

Instead, Mr Erbakan, in an enthusiastic hunt for resources, is putting up for sale state-owned enterprises, real estate, and public facilities all over the country.

This is welcome news for the stalled privatisation effort in Turkey, where receipts from sales in the last years have been far short of original targets. In 1995, the government realised only about one-tenth of its original target of \$5bn and the figure to date for 1996 is even lower at about \$291m, again way down from the \$2.7bn target.

Political instability, legal challenges and a lack of political will has crippled the decade-old privatisation effort over the last few years, leaving Turkey lagging far behind western Europe, Latin America and Asian nations.

But analysts say the government is again over-ambitious on its privatisation revenue targets for 1997, when the coalition expects to raise some \$13bn through sell-offs included in the official government privatisation portfolio as well as sales of treasury lands and real estate, and the leasing of power plants to be carried out by the ministry of energy and natural resources.

Even if the government does speed up the privatisation machinery for targeted projects such as the giant Türk Telekom or its Global System for Mobile Communications (GSM) cell-phone licences, the likelihood that it will see returns in revenues in 1997 is "very optimistic", one western analyst says. "You can't sell off telecommunications companies overnight," the analyst says, adding that in the Türk Telekom case much work remained at the preliminary valuation assessment and regulatory framework stages.

Nor is the plan to lease 35 hydroelectric and thermal power plants and 25 power distribution networks likely to bring short-term financial surpluses, according to the western analyst, adding that usually such moves are made to bring in private managerial expertise and shift the burden of new investments to the private sector, rather than to raise resources.

The energy sector in particular is expected to draw foreign investor interest. Out of a portfolio of 53 companies and real estate holdings, the privatisation administration plans to complete 24 sell-off projects by the end of 1997.

Scepticism lingers, however, that the government will muster the will to give up control in such a short period. "For following through on its privatisation promises will require the government to relinquish control mechanisms in the areas of economic strategy, patronage and consumer price levels.

"Privatising the Tupras refineries requires being prepared to allow petrol prices to rise to international levels. Is this government prepared to do that?" one consultant says. "I've not seen any evidence that Ankara is prepared to lose its control mechanisms."

Even if Mr Erbakan demonstrates a true commitment to the structural changes privatisation entails, his coalition partner, the center-right True Path Party led by Mrs Tansu Çiller has yet to show a similar willingness.

It remains to be seen whether the government will move ahead on privatisation, according to many observers, including the World Bank. It announced after a visit last week that it would monitor developments during the next six months before releasing the remaining 80 per cent of a \$100m loan for technical assistance for privatisation and a complementary social safety net programme.

Mr Gazi Erçel, Turkey's central bank governor, supports the eagerness shown by the government to speed up privatisation, which he says is essential to bring down an inflation rate that is hovering around 80 per cent and to attract foreign capital.

But Mr Erçel, too, cautions against the government's apperent tendency to see the sell-off programme as mainly a source of revenues. "The importance of privatisation lies in increasing production and public sector efficiency," he says.

In addition, reducing the size of the public sector will cut down on corruption, he says, alluding to allegations of widespread graft in the state sector.

He says particular attention should be paid to strategy in the renewed privatisation process, with an emphasis on pricing. "If the price is right, the market will find" investors, he says.

"Turkey has great potential in the medium term," he adds.

Istanbul stock exchange: by John Barham

Designs on neighbours

Brokers and bankers welcome the international market but worry about safeguards

The modern Istanbul Stock Exchange is 10 years old but is already the region's biggest market. Now it has designs on the business of neighbouring bourses.

The exchange authorities have set up an offshore international market aimed at providing a forum for new companies in a vast region ranging from the Balkans, central Asia to the Middle East to list their shares. Emerging market investors and mutual funds will then be able to access these stocks directly in a single market that offers good infrastructure and liquidity.

Most of the world's biggest emerging market funds already have a presence on the Istanbul market and want to increase their exposure in the region. Mr Hüseyn Erkan, the Istanbul exchange's executive vice-chairman, says: "The international market is open. We are trying to attract companies to the market. The rules and regulations are there. Once we have one or two companies listed we can start trading. There are a few already in the pipeline with informal applications which we are evaluating."

The international market's rules are simple. All transactions will be in US dollars. No taxes will be levied. Listing fees are rock-bottom. Companies should have a three-year track record and be profitable for at least two years prior to listing. Ideally, companies would already be listed on a market in their home countries and Istanbul would accept that market's listing criteria. If the company is not listed elsewhere, it should meet the Istanbul markets' requirements.

Once a listing is approved, the company will deposit shares either with a custodian company in its country of origin or with the Istanbul market's Takasbank clearing house. Depositary receipt shares will then be issued for trading in Istanbul. Disclosure standards will be the same as for the Istanbul domestic market. Settlement is three days after trading.

Mr Erkan hopes the international market will not be limited only to small-capitalisation stocks from the former Soviet bloc. He hopes multinationals operating in Turkey will list, both as a public relations ploy and to raise capital for local projects. Several multinational subsidiaries or their affiliates are listed in the domestic Istanbul market. US tyre-maker Goodyear, Commercial Union the British insurance group and Germany's electrical giant Siemens all have units quoted in Istanbul.

Turkish companies will also be able to list foreign subsidiaries on the international market. Mr Erkan believes Turkish companies expanding into the Balkans, Russia or central Asia will be among the first to list.

Istanbul wants to combine the attractions for international companies of an offshore listing offered by Dublin or Luxembourg, with a trading environment which these two centres lack. Iranian, Canadian and Austrian companies are currently discussing listing on the international market.

However, the international market has its drawbacks. To begin with, the Istanbul market offers all the thrills and spills of emerging markets – extreme volatility, spotty liquidity and weak regulation. Brokers admit that short-termism, speculation and market manipulation by small cliques is rife. The market is very sensitive to political news.

Although the Istanbul market's composite index climbed 33 per cent in dollar terms between January and November, it has been a rocky ride. Prices soared in the first quarter after a conservative coalition government took power. Daily trading volume exceeded \$300m on some days.

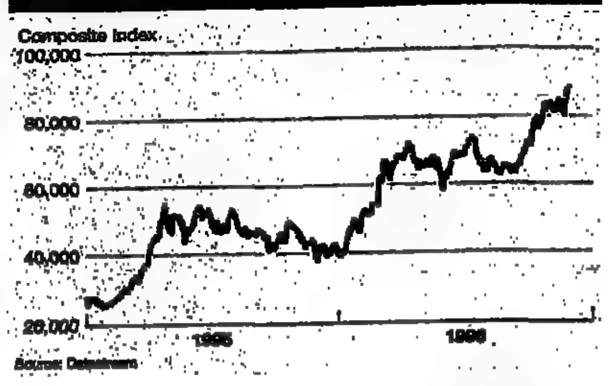
Prices began sliding when the alliance began showing signs of decay in April, only to pick up again in June with the formation of a new and possibly more stable Islamist-conservative government.

While brokers and international bankers in Istanbul welcome the international market, they worry about safeguards. It will take time to develop liquidity. Mr Albert Nekimken, research director at Demirbank, an investment bank, says: "This is a process, you cannot expect miracles. It will take 10-15 years." The Istanbul market has 229 stocks and the turnover on the domestic market rarely exceeds \$200m a day, dominated by a handful of big stocks.

Liquidity is a chicken-and-egg problem. Investors will not want to buy shares in a company that trades infrequently. Companies will not want to list on an illiquid market. Mr Erkan hopes to overcome these difficulties by establishing market makers for selected stocks without abandoning the existing automated bid-offer matching system used on the main Istanbul market. Mr Erkan hopes to jump-start trading by setting up a market for Turkish eurobonds soon. There are about \$13bn-worth of these bonds outstanding and trading is concentrated in London, even though most of this government-issued paper is held by Turks or Turkish banks.

Others doubt Istanbul can offer market depth. Privatisation, which would broaden the domestic market virtually overnight, still looks a distant prospect. Furthermore, competing small European bourses are fighting for survival by offering better service. Several alternative or over-the-counter markets are springing up in Europe.

Istanbul SE



Source: Datastream

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THE CZECH REPUBLIC

Voters and investors call the prime minister's bluff

The position of Vaclav Klaus changed dramatically after this year's elections, write **Vincent Boland** and **Anthony Robinson**

The Czech Republic began the year with confidence, anticipating continued stability, strong economic growth and four more years of firm leadership under Vaclav Klaus, the prime minister, who had just proclaimed that the country's transformation "was more or less over".

It ends the year unsettled and politically divided, facing a sluggish economic outlook, and at sixes and sevens over the pace and direction of further reforms. Problems in the financial sector have exposed legal and regulatory weaknesses, while high imports and faltering exports raise question marks about competitiveness and the pace of industrial restructuring. Voters and investors, whom Mr Klaus has always trusted to prove him right, have taken to calling his bluff.

When Mr Klaus made the remark about the transformation being over, he was in a dominant political position, with a comfortable majority in parliament he expected to retain, and a weak opposition. The country had made good progress on macro-economic and political reform, was poised to join the Organisation for Economic Co-operation and Development (OECD), and was about to apply for membership of the European Union (EU). Expectations were high, fuelled by that confidence.

After his centre-right coalition government lost its parliamentary majority in a general election last June, those expectations changed to anxieties. Voters sent a message that they wanted more political accountability and more open discussion of issues both within the coalition government and in parliament. That again appeared to be the message in the latest test of the public mood in last month's election to the upper house of parliament, in which the coalition won a clear majority, but on a low turnout.

Investors are also demanding regulatory and legal reforms that have become more urgent since August, when Kreditni Banka failed with large losses caused by bad lending and suspected fraud. A succession of failures among small banks had until then done little real damage to the financial sector. But the Kreditni collapse sent wider ripples, forcing the central bank to rescue Agrobanka, the country's biggest fully private bank.

Some of the financial problems stem from inherent weaknesses and complexities in the Czech capital markets, including poor regulation and wide cross-ownership within the banking sector and between banks and industrial companies. This encourages companies to take on expensive, short-term bank debt rather than raise more flexible and long-term equity capital. The current state of the capital markets also leads to insider trading and creative accounting, which may not be illegal because of gaps in the commercial law, and to outright fraud, which is.

"There is a tendency in the Czech Republic for financial alchemy, for exceedingly and unnecessarily complicated transactions whose original purpose is obscured by their complexity," says Jiri Huebner, head of the Czech Republic team at the European Bank for Reconstruction and Development (EBRD).

These developments have altered perceptions of the Czech Republic, once admired for its clarity of purpose and careful handling of financial matters. Some argue that the current gloom is overdone. Views "have changed from over-positive to over-negative", says Josef Tosovsky, governor of the Czech National Bank and chief fighter of fires in the undergrowth of the financial sector. "We are now paying certain unavoidable, long-term costs of economic reform."

Mr Tosovsky and many others welcome a growing awareness of the need for micro-economic reforms and greater enterprise efficiency. But such reforms need to be far-reaching and involve the sacrificing of sacred cows. In a recent study, the EBRD and Patria Finance, a Prague investment bank, highlighted the difficulties facing Czech companies seeking long-term capital to finance modernisation and restructuring. This is especially true in the engineering sector, traditionally at the heart of the economy. Companies with foreign strategic shareholders are restructuring much more quickly.

The poor financial health of much domestic industry coincides with a more pessimistic outlook for growth. Last month, the Czech Statistics Office cut its forecast for growth of gross domestic product (GDP) for 1996 to 4.8 per cent from 5.1 per cent, blaming a slowdown in the German economy. This was accompanied by an upward revision of the full-year current account deficit to nearly 7 per cent of GDP. Economic growth next year is forecast at between 5.1 and 5.6 per cent.

Inflation is also stubbornly high at about 9 per cent and is proving difficult to cut because the phased liberalisation of utility prices and other regulated sectors adds up to three points to the inflation rate every year.

A clutch of high-profile investment projects that are expected to improve the quality of both output and productivity are about to get under way. Nova Hut, a big steel mill, is close to finalising a $650m restructuring programme with finance from the International Finance Corporation and the EBRD. A recapitalisation of the venerable Zetor tractor company is another big project under discussion, together with on-going modernisation of the country's power and transport infrastructure. Meanwhile, the banking sector is preparing to embrace foreign investors as minority shareholders.

But industrialists and other observers say politicians need to refocus on removing institutional and legal obstacles to faster progress. Now that the senate campaign is out of the way the real test of Mr Klaus will be his ability to bring forward fresh ideas, says Jiri Pehe, a political scientist.

President Vaclav Havel sometimes appears more in tune with the public mood than either the government or the opposition. He handled the stalemate resulting from the election in June with aplomb while politicians floundered. He also made pointed comments on fraud and cheating and the need for greater morality in public and economic life before the government acknowledged there was a problem.

At the end of an eventful year the future course of events is unclear. "Drift is now the danger," Mr Pehe says. "Aside from Havel and a few others, Klaus and the government don't have the intellectual breadth to take the country forward."

While Mr Havel, whose health gives cause for concern, can point society's way forward, Mr Klaus retains the responsibility of leading the government. But one positive consequence of the shifting political winds, could be a wider and more open debate. "This country needs to function, needs to work," the prime minister said during the senate election. Many of the changes needed to get it moving again are relatively small, observers say, and could be quickly implemented if vested interests allow.

As the country gravitates closer to the European mainstream it is also being forced to engage more with the outside world. The first Czechoslovak republic, the only functioning democracy to emerge from the dissolution of the Hapsburg empire, was sacrificed to Hitler in 1938, submitted to communism in 1948, and was forced back into sullen conformity by Moscow in 1968. This history has left scars. They are reflected in Czech wariness about ceding economic control to foreigners, a rather sceptical attitude to Brussels, and a lively interest in the sort of influence which small countries will be allowed to play in a future enlarged Europe.

Caution is the leitmotiv. An agonised internal debate precedes every move forward. The current debate about a securities watchdog, which impatient investors insist can be installed practically overnight, is indicative of how slowly things can move. One young businessman, born in Bohemia but educated in the UK, remarked recently that the Czech Republic "is a great place to come to for a critique of your ideas". Czech society also prides itself on consensus. Currently there is no consensus on what to do or where to go next. But a wider range of options is now on the table for discussion by rival politicians and a more combative parliament.

The Czech republic heads for 1997 in the mood for more open debate and fresh ideas. It should be an interesting year.

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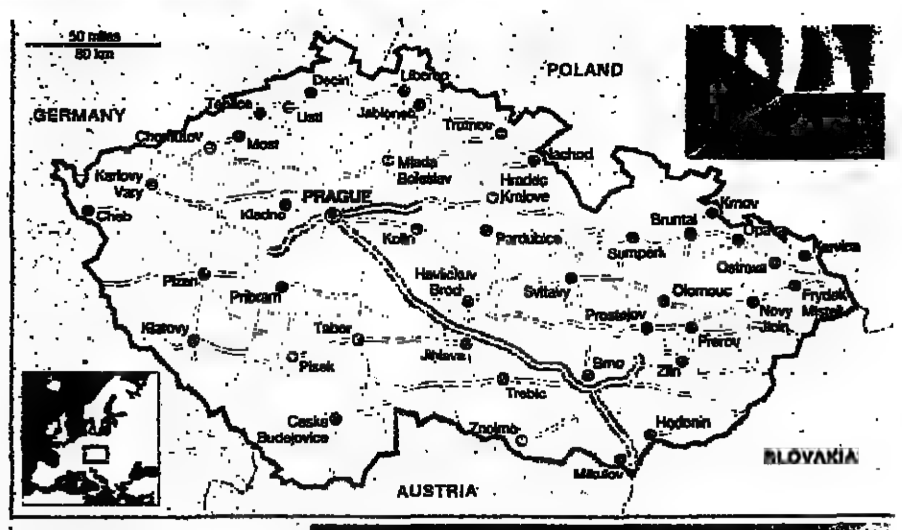
Production Editor: Ian MacDonald



- Area: 78,864 sq km
- Population: 10.3m (mid 1994)
- Language: Czech
- Main Cities: (Jan 1994)
  - Prague (capital) 1,216,000
  - Brno 390,000
  - Ostrava 328,000
  - Plzen 172,000
- Currency: Koruna (Kcs) = 100 Hales
  - Exchange rate: Nov 26 1996 $1=Kc26.785

Government and constitution

Head of state
President Vaclav Havel

Head of government
Prime minister Vaclav Klaus (ODS)

National legislature
Parliament has 200 members, with an upper house, the Senate, of 81 members.

Electoral system
Universal direct suffrage for party proportional representation, subject to 5% threshold.

National government
Headed by the prime minister and dominated by the Civic Democratic Party. The government was formed in July 1996.

Main political parties
Civic Democratic Party (ODS)*; Civic Democratic Alliance (ODA)*; Christian Democratic Union-People's Party (KDU-CSL)*; Communist Party of Bohemia and Moravia (KSCM); Czech Social Democratic Party (CSSD); Free Democrats-Liberal National Social Party (SD-LNSP); Czechoslovak Republican Party * Ruling coalition

National elections
Next parliamentary elections due June 2000

Sources: EIU; ING Barings

Economic summary

	1996(e)	1997(f)
Total GDP ($ bn)	49.0	53.0
Real GDP growth (annual % change)	4.8	5.2
GDP per head ($)	4,637	5,190
Inflation (annual % change in CPI)	8.8	7.6
Industrial output (annual % change)	10.0	7.0
Gross fixed investment (yr-on-yr % change)	18.0	15.0
Unemployment rate (%)	3.6	4.0
Current account balance ($bn)	-3.4	-3.0
Current account/GDP (%)	-6.9	-5.7
Trade balance ($bn)	-5.6	-5.2
Import cover (months)	7.2	7.3
Foreign Direct Investment ($bn)	1.5	2.0
Foreign Direct Investment/GDP (%)	3.1	3.6
Budget balance/GDP (%)	0.8	0.0
External debt/GDP (%)	34.0	32.4
Foreign reserves ($bn)	15.0	17.0
Interest rate, 3 month PRIBOR (%)	11.8	10.5

Main trading partners (Share of total trade to world, 1995)

* excluding Slovakia (e) estimate (f) forecast

■ **Banking** • by Vincent Boland

The problems run deep

This sector is on the defensive following a string of failures at small banks

Just when they thought they had turned the corner, Czech bankers have been given a rude reminder in the past few months that their problems are more than skin deep. A series of failures among small banks, and a resulting liquidity crunch at the fifth largest, have exposed bankers to their closest scrutiny ever, putting the entire sector on the defensive.

The catalyst for this bout of reluctant navel-gazing was the collapse of Kreditni Banka in August with losses estimated at Kc12bn. The bank was brought down partly by heavy loan losses but also by suspected large-scale fraud, which appears to have gone unchecked for some time even though the market was convinced of it for weeks before the Czech National Bank intervened.

At the centre of police and parliamentary investigations into the Kreditni failure is Motoinvest, an acquisitive but somewhat mysterious financial group which had managed to gain control of Kreditni and Agrobanka, the largest fully private Czech bank. In the immediate aftermath of Kreditni's collapse, Agrobanka experienced a disastrous credit squeeze after being frozen out of the interbank market. Agrobanka is now under central bank administration and is up for sale, while Kreditni is being liquidated.

The impact of these two incidents has lent an air of crisis management to official attempts to contain the fall-out and to get to grips with the wider issue of financial sector reform, including that of the stock market. Financiers say the reform process will need to be thorough and far-reaching if further problems are to be avoided and if the credibility of the Czech financial markets, now at its lowest point since economic reforms began, is to be re-established.

Josef Tosovsky, the governor of the Czech National Bank who has been criticised for the central bank's inadequate supervision of the banking system, argues that strong political pressure for the issuance of bank licences to stimulate competition early in the reform process and the unpredictable nature of the switch from a centrally planned to an open economy, lie at the root of the problem.

"The development of markets and the creation of experienced, skilled bank regulators all take time," he says. "We had to close one eye to the lack of experience at the beginning as privatisation created a huge demand for banking services.

"Everything took place in a legislative vacuum until laws started to emerge in 1992. But when clear evidence of fraud emerged at Bohemia Bank in 1994, for example, we closed it down quickly. We expected that this would be taken as a clear signal that we would not tolerate fraud or non-professional behaviour."

Meanwhile, the 12 bank failures which have occurred over the last few years have affected less than 4 per cent of the assets of the overall banking system, which remains highly concentrated. The top four banks, all partially state-owned, control over 80 per cent of the assets of the banking system.

Their underlying strength has only been marginally affected. Ceska Sporitelna (CS), the big savings bank, was singed because of its significant role in the interbank market, on which the failed institutions relied for financing. CS, which was monopoly savings bank under the old regime, attracts 70 per cent of Czech savings deposits and is the leading supplier of funds to the interbank market. If CS had been lending money directly to customers instead of indirectly through the interbank market, it would have had to bear the losses directly.

Part of the problem is that too many banks are chasing too few creditworthy customers. In several of the collapses, small banks were lending to their own shareholders or to those who never intended to repay. Some argue that some small Czech banks were bound to fail, given the high cost of borrowing and weak financial state of Czech industry and other borrowers.

What angered independent observers, including foreign portfolio managers, was the impunity with which Motoinvest and other groups acted. Motoinvest secured control of Agrobanka in early 1996 after what Jiri Huebner, director of the Czech Republic team at the European Bank for Reconstruction and Development (EBRD), describes as a "conspiratorial shareholder meeting" held without the knowledge of several key shareholders. But no action was taken to rescind the results of that meeting, which ultimately proved disastrous for Agrobanka.

The banking sector's recent problems have given a higher profile to the broader question of privati sation of the top four banks – Komercni Banka, Ceska Sporitelna, IPB, and Ceskoslovenska Obchodni Banka (CSOB). A series of sometimes contradictory statements from the central bank and the government recently about how this should be carried out left many investors unconvinced by the arguments on both sides, even though there is agreement among officials on the broad approach.

The strategy includes a fairly speedy sale of the state's 31 per cent stake in IPB, almost certainly to a foreign investor. Nomura, the Japanese financial house, and ING and ABN Amro of the Netherlands have been touted as potential buyers.

Beyond that there is little agreement. The CNB is pushing for a merger between deposit-rich CS and CSOB, the former foreign trade bank. But Vaclav Klaus, the prime minister, recently described the notion as a nonsense. He dismissed the plan as tantamount to a merger of Sparta and Slavia, the top Prague football teams, anathema to fans of both clubs.

The merger idea was originally touted privately by CSOB, but of late the bank's management has become less inclined towards it, while the CNB, which is understood to have been initially sceptical, has taken to it. A merger of the two banks is now at the heart of central bank thinking on the sector, with the aim of creating an institution able to compete when the Czech Republic joins the European Union and the banking market is thrown open to untrammeled competition.

Towards privatisation

Privatisation of the big four banks is an intensely political process, writes Vincent Boland. Through their fund management arms, which control stakes in the nation's leading companies, the banks spread their tentacles throughout the economy. There is widespread suspicion that any new large shareholder would impose new rules, especially if that shareholder were to be a powerful foreign investor intent on pushing through a radical restructuring of the enterprises owned by the funds.

Privatisation therefore raises the wider question of what national strategic role, if any, the big banks should play. The main issue is whether they should continue to be the quasi-governmental executors of industrial policy with wide strategic ownership roles in the economy, similar to that of Austrian and German banks, or confine themselves to a more limited Anglo-Saxon role, lending to industry and the entrepreneurial sector.

***Given the geographical location of the Czech Republic,* and the nature of its emerging business culture, the balance is likely to tilt increasingly in the Germanic direction.**

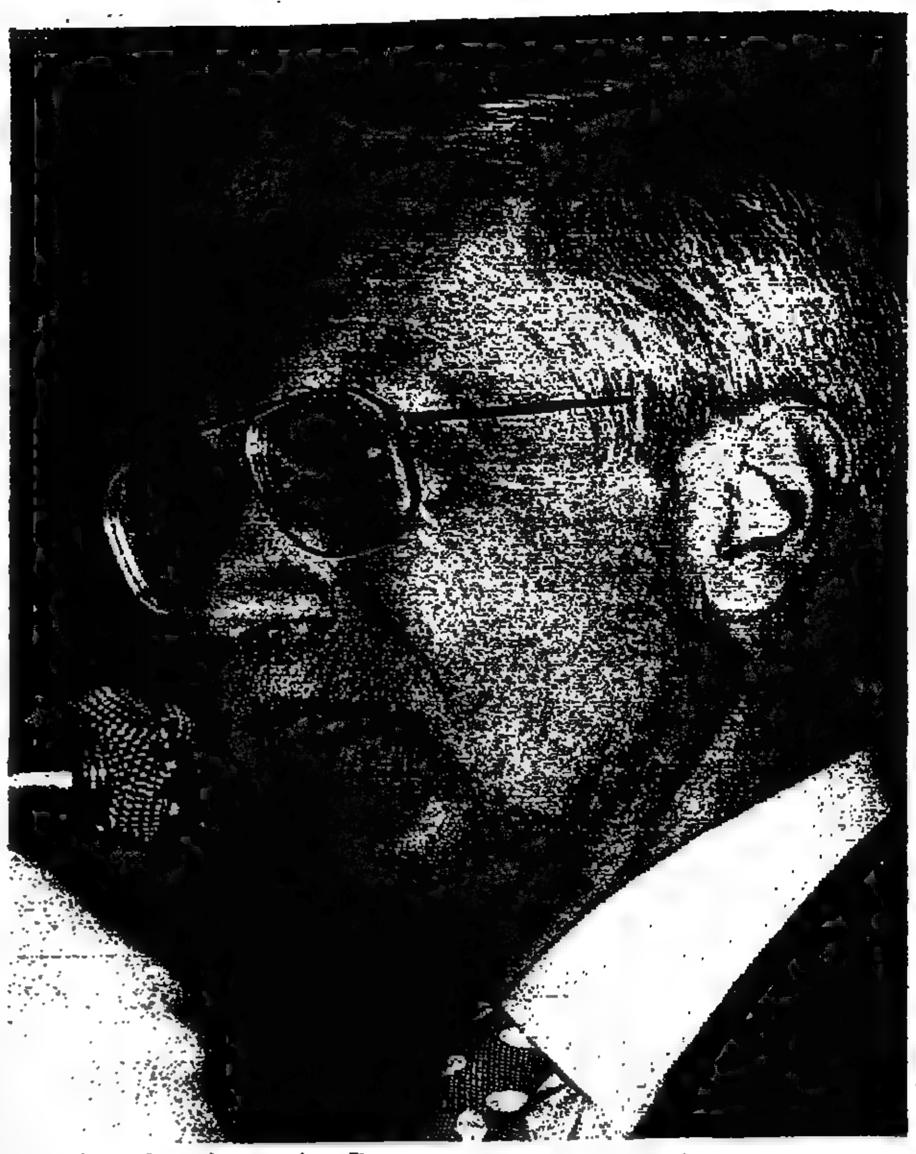
■ **Export performance** • by Vincent Boland

Trade deficit worries

High cost of importing technology weighs heavy on finances

At the Prague School of Economics last month, *Prime Minister* Vaclav Klaus, who became a professor last year, indulged in one of his favourite pursuits – lecturing to students. Striding around the lectern, chalk and ruler in hand, he filled a blackboard with equations and calculations, impressing his wide-eyed audience, many of whom are his supporters.

One of the premier's contentions at the lecture was that the country would run a permanent trade deficit. "The Czech Republic will probably not have a positive trade balance in the long term, ever," he told the students. Mr Klaus argued that the Czech trade deficit, which stood at Kc111bn in the nine months to September, was the result of high imports of investment goods and that, while it would stop growing soon, it would not be eliminated.



Vaclav Klaus: a lesson in economic reality

The prime minister's fellow-economists agree that an emerging economy will inevitably run a trade deficit as companies import technology to help them restructure. Some argue, however, that as the Czech trade deficit continues to climb, pushing up the overall current account deficit as a percentage of gross domestic product – it is expected to be 7 per cent of GDP this year and 7.4 per cent in 1997 – it may become difficult to finance.

"In our opinion, continued deficits on this scale are unsustainable," noted Goldman Sachs, the New York investment bank, in a commentary in November. Better economic conditions in European Union economies, which account for over 60 per cent of Czech foreign trade, should allow domestic companies to export more, "albeit with a lag of six to nine months", the bank said.

While a strong performance by the services sector continues to keep the growth of the current account deficit below that of the trade deficit, it may not be enough to alleviate the problem in the medium term. Tourism revenues continue to be high, but the underdevelopment of the sector keeps a check on growth.

In a bid to boost export performance, the government recently budgeted more funds for export promotion and promised to involve Czech diplomatic missions abroad in the selling of Czech products, something diplomats have apparently been unwilling to do up to now. But the real answer to the rising deficit, *analysts and industrialists* say, is for Czech companies to complete restructuring quickly. When that has been completed domestic industry will be able to compete on quality, rather than relying on price advantages, as many do today.

Czech industry is a mixed bag. "There are excellent enterprises, there are enterprises that should have been declared bankrupt long ago, and there are enterprises that muddle through," says one Prague economist. Those companies with strategic foreign investors who can supply cheap finance to restructure are powering ahead, while others that do not often have difficulty in obtaining long-term financing while being burdened with short-term debt.

This is especially the case in the engineering and heavy industry sectors, traditionally at the heart of the Czech manufacturing economy. The country's large number of mid-sized companies are especially burdened by high short-term debt ratios and low returns on assets and equity, according to the European Bank for Reconstruction and Development. High indebtedness and low profitability throughout much of the private sector contrast sharply with low government debt levels and a balanced state budget.

The government has several choices in addressing the poor trade performance. One is to devalue the koruna, whose high and stable nominal exchange rate against the US dollar and D-Mark makes Czech goods expensive abroad. Many industrialists favour this course, and they have the backing of Vladimir Dlouhy, the industry and trade minister, who said recently that if the deficit did not show signs of peaking soon – he suggested by the end of this year – a devaluation of the koruna would be needed.

However, Mr Klaus and the central bank are against this course of action, and there is little prospect of a devaluation for the moment. Mr Klaus argues that the high deficit is temporary and caused not by the high koruna but by high imports of technology as companies modernise themselves. This modernisation is not yet reflected in improved export competitiveness. Import growth for all of 1996, forecast at 15.5 per cent, will heavily outweigh the forecast 7.5 per cent rise in exports.

Another course is to raise interest rates. But with interest rates already high – the average was 13.96 per cent in September – this would push up the koruna, so making imports cheaper and exports even more expensive.

A third option is to promote domestic savings and switch to a budget surplus, thus cutting domestic demand. However, a budget surplus would be politically sensitive and perhaps impossible to achieve in the current climate in parliament. The government wants to reduce public sector wage growth but faces a potentially gruelling fight with the opposition early next year over reform of the health and welfare services, which is likely to cost a lot of public money.

A fourth option, though one with limited potential, is to attract more foreign direct investment. It has been a proud boast of the Czech government that it has not had to privatise for budgetary reasons. When it sold 27 per cent of SPT Telecom to a foreign partner last year the entire $1.35bn proceeds went to the company to help it restructure.

Those days may be over. The country has attracted little green field investment, while delays in privatising energy utilities and other sectors have caused FDI to drop off this year. CzechInvest, the foreign investment agency, is seeking to persuade the cabinet to drop its resistance to incentives for green field investments from abroad, while the proposed privatisation of the banking sector – likely to take several years – should attract strong foreign interest.

In the meantime, the burden of improving the sluggish Czech trade performance depends on managers and shareholders whipping industry into competitive shape. That requires finance, experience and nerve by existing management. As Richard Salzmann, chairman of Komercni Banka, notes: "There are no reserves of management available on the market."

■ The economy • by Anthony Robinson

Sell-offs now give cause for concern

Greater efficiency at micro level is needed to maintain stability in macro-economy

Macro-economic stability has been the holy grail of a government dominated by macro-economists. The result has been a succession of balanced budgets and gently-declining single-digit inflation despite external shocks, such as the collapse of the Comecon trading system in 1991 and the divorce from Slovakia in 1993, and the most comprehensive coupon privatisation scheme in the post-communist world.

Over the last year, however, a steeply-rising trade deficit, which Vladimir Dlouhy, the trade and industry minister, warned recently was "nearly at the limits of the bearable", has brought to the surface growing concern that the government's unorthodox mass privatisation methods, while quick, have created obstacles to reform at the micro level.

Thousands of privatised Czech enterprises, many of them quoted on the Prague stock exchange, now find themselves short of capital and deprived of effective owners capable of spurring management into creating internationally competitive enterprises. The concern is that, without capital market reforms and greater efficiency at the micro level, the country's hard-earned macro-economic stability could also be placed in jeopardy.

But the worries go wider than that. Prime Minister Vaclav Klaus is widely praised for his ability to transmit clear liberal market ideas to a sceptical population and for the force of his belief that once enterprises were privatised the market would sort out the wheat from the chaff. But it has become increasingly clear that he is less familiar with the subtle interactions of modern financial markets and underestimated the need for markets, banks and other financial institutions to work within a clear legal and regulatory framework.

That may change. A series of small bank failures, popular concern over criminality and business fraud, and growing evidence that serious foreign institutional investors in particular are staying clear of Czech equity markets, has raised the profile of legal and institutional reform and micro-economic change.

The government's political future was reinforced by the coalition partners' relatively strong showing in last month's senate elections. The hope in financial and market circles is that a newly self-confident government will move on to tackle the more complex, long-range problems thrown up by the second or institutional reform stage of the transition process.

One area of reform concerns the need to strengthen the Securities Act and create a securities and exchange commission with teeth. At present, the Prague stock exchange finds itself at a distinct disadvantage compared, for example, with Warsaw, whose exchange commission has imposed New York-style transparency rules which attract foreign and domestic investors.

"Currently there is no protection for minority shareholders, few disclosure requirements, and little enforcement as no punitive powers were given to the minister of finance," according to Zdenek Bakala, of Patria Finance.

"The system started to operate in a virtual vacuum. This was very attractive to some players in the market who became very rich, and to the banks. Through their control of investment funds the banks gained control over the consumers of capital. It has proved very difficult to change the system because the combined assets of the banks and the funds give them a power which makes it difficult for for parliament to control," he adds.

The result is that the Czech Republic has attracted less than half the foreign investment which has flowed into Hungary over the past seven years and has far fewer entrepreneurial start-up companies than Poland, which leads the way in bottom-up private enterprise development in the region.

A big gap has also emerged between the performance of Czech companies which were privatised through more or less conventional trade sales to foreign investors, and those formally privatised through coupon privatisation. The latter left control of several thousand companies initially in the hands of over 6m individuals and subsequently in the hands of investment funds or shareholder groups more interested in retaining control than improving the performance of their investment.

Some of the foreign takeovers have proved to be spectacularly successful. A recent study by Czechinvest, the foreign investment promotion agency, shows that Volkswagen's acquisition of a 70 per cent stake in Skoda Automobilova, accompanied by heavy investment in new plant, machinery and training, has not only transformed Skoda into an internationally competitive car company accounting for nearly 6 per cent of total Czech exports. Its rapid growth has also acted as a magnet to attract investment from over 60 component makers who not only supply Skoda but also exported products worth a further $300m last year to other car plants in the region.

Another highly successful, high-profile foreign investor has been Asea Brown Boveri (ABB), which bought up a pot-pourri of capital-starved, over-staffed electrical engineering companies in Brno and other industrial towns. With a relatively small investment, but careful attention to updating and transferring new technology, ABB built on traditional high Czech and Moravian engineering skills to modernise this export-oriented sector.

Very high increases in labour productivity in these and similar plants, coupled with a large decline in overall employment in the engineering and other industrial sector as under-employed workers shifted into fast-growing service industries, has helped to raise overall productivity levels in Czech industry.

But restructuring has been much slower at many Czech companies, especially those which used to export heavily to slowly reviving former Comecon markets, or which rely heavily on expensive bank financing. Reluctance to allow Skoda Plzen, the biggest Czech engineering company, fall under the control of Siemens five years ago, for example, has been followed by rapid expansion into new markets and new industrial sectors.

But overall profitability is low, and the company's ability to continue making a wide range of products from nuclear power equipment through to railway locomotives, machine tools and consumer products which all demand specialised managerial and marketing skills and heavy investment is a source of astonishment to financial analysts.

Labour productivity

■ Politics • by Anthony Robinson

Message from the people

Electorate gives the prime minister an unpleasant surprise

Behind an often dour, phlegmatic exterior, Czechs frequently harbour a critical scepticism and a penchant for black humour. Vaclav Klaus, the prime minister, found himself at the receiving end of this national characteristic at the general elections in June.

Tired of his arrogant self-confidence and Thatcherian insistance that Czechs had "no alternative" to his policies, thousands of voters turned up at the polls determined to give him a nasty shock. Instead of a ringing endorsement and four more easy years in power for Mr Klaus and the three-party centre-right coalition led by his Civic Democratic Party (ODS), the voters decided to put an electoral ferret up his trousers in the shape of Milos Zeman, leader of the Social Democratic Party.

The two men worked for years in the same economic research institutes under the communist regime. They could not stand each other then, and their personal animosity has deepened since.

Their personal rivalry reflects the polarised society revealed by the elections. Some former Communist party voters and large numbers of lowly-paid workers, turned off by the triumphalism and apparent insensitivity of Mr Klaus, shifted their vote to the revived version of a party which was very popular in the pre-war Czech republic. From a lowly 6 per cent share of the vote in the 1992 general election, the Social Democrats shot up to 26.4 per cent share which delivered 61 seats in the 200-seat lower house.

The shift to the Social Democratic centre-left was accompanied by a strong showing from two "pariah parties", the xenophobic Republican party which won 18 seats on 8 per cent of the votes on its anti-foreigner, anti-gypsy rhetoric, and the unreformed Communist party. The latter dropped slightly to 10 per cent of the vote and 22 seats. But together the opposition parties won enough seats to deny an overall majority to Mr Klaus and his allies in the Civic Democratic Alliance (ODA) and the Christian Democratic Union (KDU).

Klaus, whose own party actually performed well, was visibly stunned. Suddenly he had to fend off criticism from within his own party and his coalition partners, who wanted a less personalised, more collegial style of government. Above all, he had to face up to the need to make political compromises with an opposition leader whom he personally despised but with whom he had to reach a political accommodation.

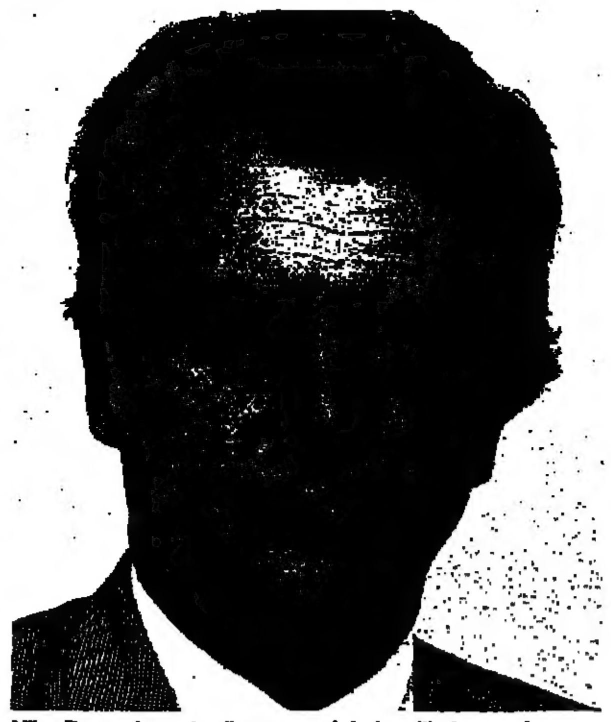
That accommodation was reached on July 25 when the renewed centre-right coalition, two seats short of an overall majority, received a parliamentary vote of confidence after the Social Democrats walked out of parliament just before the vote. To obtain permission to govern in this way, Mr Klaus had to make several largely symbolic policy and personnel changes and agree to the appointment of Mr Zeman as the speaker of parliament.

Since then, however, events have largely moved in favour of the prime minister and the government. Mr Zeman is every bit as abrasive and authoritarian as Mr Klaus, and soon managed to stir up the hostility of many in his fractious, inexperienced parliamentary group and party.

The most important split occurred in October when four Social Democrat deputies defied party discipline and voted with the government in favour of another balanced budget for 1997. The Social Democrats had campaigned on the need for more spending on education, health and social welfare and declared themselves in favour of a 3 per cent budget deficit and debt finance for the higher spending.

The second big blow for the Social Democrats came on November 23 when the ruling coalition parties won 52 of the 81 seats in the newly-created senate. The ODS raised its share of the vote in the second round run-off to 39.5 per cent from 29.6 per cent at the general election, while Social Democrat candidates slightly increased their share but picked up only 25 seats in a senate which they had promised to abolish anyway had they won.

Despite urging from President Vaclav Havel to turn out and give substance to an institution which could underpin democracy as in the first republic, only 30 per cent of the electorate bothered to turn up at the second round of voting, compared with 76 per cent at the general election.



Milos Zeman: long-standing personal rivalry with the premier

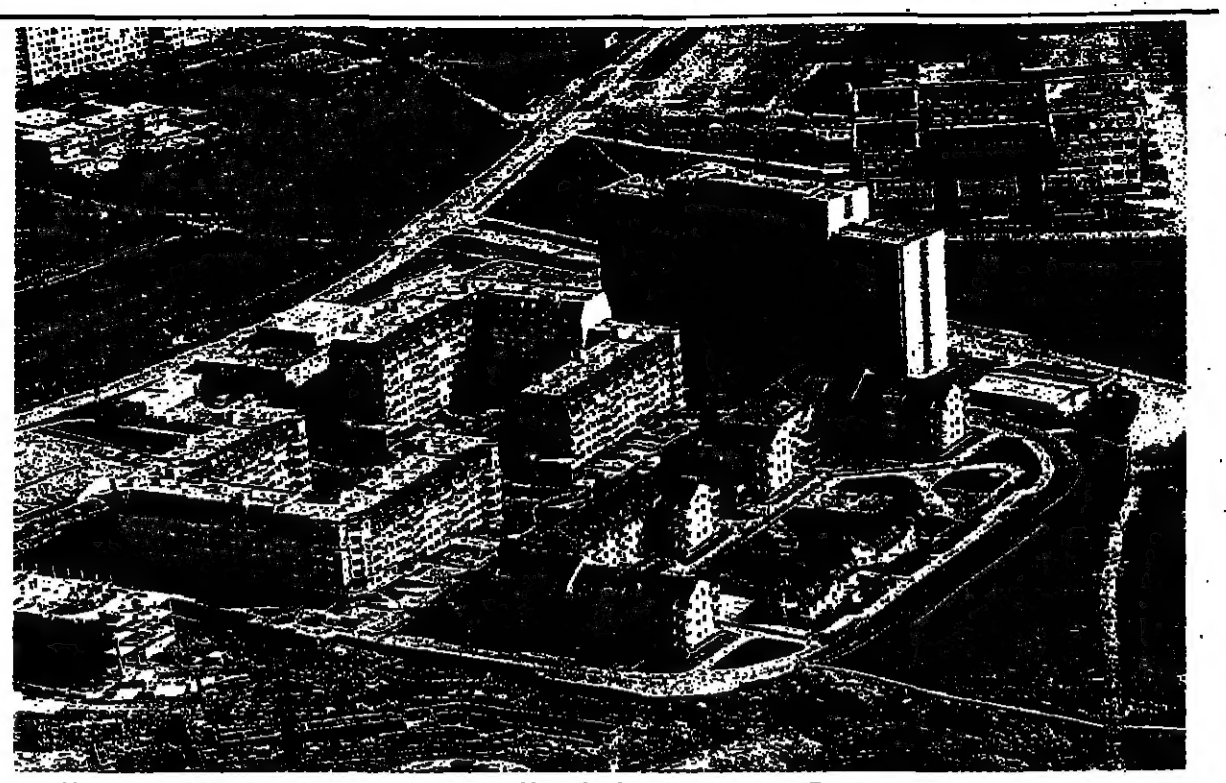
The low poll permitted the opposition to dismiss the vote as an irrelevance. But no amount of political spin-doctoring can alter the fact that the Social Democrats in general, and Mr Zeman in particular, are a waning political force, while Mr Klaus has recovered much, although not all, of his former self-confidence.

The question now is whether Mr Klaus, perhaps wiser and more accommodating after his recent bruising, will seize the initiative and turn the government's attention to the legal and institutional reforms needed to underpin democracy, tackle cheating and rising criminality, and bring greater transparency and honesty to the economy.

■ **Housing** • by Vincent Boland

Tricky search for a decent place to live

For most people there is still little alternative to life in a high-rise



The old and the new: Contrasting styles of housing alongside each other on an estate near Prague

Throughout eastern Europe, forests of high-rise housing surround nearly every large town, often obscuring an historic centre of rare beauty.

These suburban monuments to socialist social engineering are not always low-income ghettos but are frequently home to a cross-section of people from all walks of life. They are not attractive – President Vaclav Havel once referred to them as "rabbit cages" – but they are relatively free of the social problems that plague such high-rise developments in western cities.

President Havel, motivated by aesthetic as much as political and social considerations, vowed that no more bleak, monotonous housing estates would be built after the fall of communism. Since then, construction companies have indeed started putting up lower-density, three-to-four-storey housing units in landscaped surroundings. But they are expensive. Sheer economics dictate that cheaper panel construction techniques will still be needed to provide affordable homes to those on lower incomes.

Often these apartments house three generations of one family. In the communist era, one way to climb the housing waiting list was to get married. State companies also provided housing for their workers, giving rise to the phenomenon of "company towns." A typical example is Roznov, in northern *Moravia, a town that did* not exist until communist planners decided to build a factory to make televisions in a particularly underdeveloped part of the country. Having built the factory, they then built blocks of cheap apartments to house workers.

While these traditions are breaking down, there is still little alternative to a flat in a high-rise for most Czech people. Czechs call them *panelàky* – panel-built housing with paper-thin walls made of cheap materials, erected in the 1960s "to provide a roof over the heads of the entire population regardless of how good it was", says Jaromir Schneider, minister of regional development. His newly-created department has assumed responsibility for housing, and he estimates that 30 per cent of all housing consists of these high-rise estates.

Today, the majority of such apartments are owned by the families who live in them; about 60 per cent of the ones in Prague are privately owned while others are co-operatives. The regional development ministry estimates that slightly less than half the country's total of 3.7m homes are privately owned. Rental levels on .municipal accommodation are also still tightly controlled.

There is, however, no housing market. While Czech banks now provide mortgages – some have television advertisements showing smiling families living in beautiful new homes – interest rates are too high for most people. There is talk of mortgage interest relief, common in many western countries, but for the moment the absence of sellers and the scarcity of new housing means there is virtually nothing to buy.

Some high-rise suburbs are already in an advanced state of disrepair; panel housing was not built to last. "It is quite clear we have to invest for restoration and refurbishment," says Mr Jan Koukal, mayor of Prague. To help raise the necessary finance, the city is planning its second move into international capital markets to raise up to Kc7.5bn. This would go towards providing mortgage subsidies for residents seeking to either buy or refurbish their homes, the mayor says.

The ministry is also planning a national programme of housing subsidies, Mr Schneider says. This will include support schemes for site development, direct loans to potential buyers, guarantees for mortgage loans for applicants without adequate security, and mortgage repayment subsidies. Some Kc13.5bn has been set aside in the draft 1997 budget to finance this programme. The goal is to raise the level of subsidies to about 2 per cent of gross domestic product over time.

These developments coincide with construction industry estimates that Kc400bn will be spent on upgrading existing stock and building new housing over the next 10 years to satisfy pent-up demand.

The centres of many towns have undergone substantial refurbishment in the past few years thanks to restitution – the return of property confiscated by the communist regime after 1948 to its original owners or their descendants – so most of this new development is likely to be in suburbs and in new housing estates.

Increasing and improving the housing stock also has a wider economic benefit. The current lack of housing makes the labour market inflexible. People in areas of relatively high unemployment, such as northern districts of Bohemia and Moravia, are often unwilling to move in search of jobs because accommodation is difficult to find. In Prague, where there is full employment – according to official statistics – there is an especially acute housing shortage. Meanwhile, in the northern industrial town of Most, whole blocks of flats lie empty because the mining and coking industries have closed and their former employees have dispersed.

Another boost to the development of a housing market is expected when rent controls come to an end. This is one of the toughest decisions facing the government, along with the liberalisation of energy prices. Economists say controls tend to distort the economy, with the current policy of piecemeal liberalisation adding up to three points to the annual inflation rate.

In central districts of Prague it is not uncommon for residents to pay just Kc2,000 a month for rent, heating and other utilities combined, even though the apartment may be owned by beneficiaries of restitution. Ending such distortions is likely to be central to the government's overall housing policy at some stage in the future. For now, however, the Czech Republic is still a relatively cheap place to live, unless you are a foreign resident competing for space in the expensive and often beautifully restored historic town and city centres.

PROFILE IPS Praha

Success based on astute takeovers

The sprawling headquarters of IPS Praha, the Czech Republic's fastest-growing construction company, is being gutted and modernised.

Workmen scurry about its wide corridors, situated in a giant glass-fronted building in suburban Prague's Cuba Square. Inside, in a warren of offices, executives co-ordinate progress on a host of similar projects throughout the country.

Currently, these projects include: the renovation of a building on Wenceslas Square in Prague for Komercni Banka; reconstruction of government buildings in the historic Mala Strana (Little Quarter), including the palatial home of the country's new senate; and the upgrading of a stretch of the national rail network between the towns of Ceska Trebova and Skalice in eastern Bohemia.

These three contracts are valued at Kc5.4bn, and will represent a substantial slice of IPS turnover over the next few years. Turnover this year is forecast to top Kc9bn for the first time.

IPS was set up in 1953 to build the Prague metro system. By 1988 the company employed 20,000 and "was responsible for building nearly everything in Prague", says Miroslav Tvrdy, executive managing director.

Today it is a different animal. It has 7,600 employees and its expected 1996 revenues of Kc9.2bn are up 33 per cent on last year. Profits are also rising, from Kc170m last year to an expected Kc212m in 1996 and Kc288m in 1997. Its shares have been among the best performers on the Prague stock exchange this year, with the price up about 50 per cent over the past 12 months.

The company laid the basis for its current success with a series of astute takeovers last year that gave it a leading position in the Prague housing market, the country's biggest, and in infrastructure construction. With the government expected to spend at least Kc200bn on road and rail projects by 2007, IPS is likely to be one of the main beneficiaries of lucrative state contracts.

With this in prospect, IPS has become a favourite of foreign investors anxious to tap into the booming Czech construction industry and grateful to find a company alive to their interests. In part it won this reputation by going abroad to seek investors.

"IPS management is receptive to the investor community and was one of the first to publicly release a company business plan," noted Wood & Co, a brokerage firm, earlier this year. IPS tends to disprove the rule that Czech companies whose shareholder registers are dominated by local investment funds are financial death to foreign investors. Some 40 per cent of its shares are owned by funds run by Komercni Banka, Ceska Sporitelna and Zivnostenska Banka, whose representatives sit on its supervisory board. Foreign investors, including the Central European Growth Fund run by Credit Suisse Investment Management, own about 35 per cent.

These three Czech banks are among those that welcome foreign portfolio investment into domestic companies. Admiring investors in IPS shares say it is a clear example of how local and foreign investors can co-exist happily together while helping companies restructure, expand, and benefit shareholders, management and employees.

Vincent Boland

■ **Industrial financing** • by Anthony Robinson

A conundrum for companies

Borrowing over longer periods than available is needed to raise productivity

Most Czech industrial companies are under-capitalised, unable to raise the medium and long-term capital they need from banks, but unwilling to raise equity capital because controlling shareholders fear diluting their majority ownership, according to a study commissioned by the European Bank for Reconstruction and Development (EBRD).

The study, designed and commissioned by the EBRD but carried out by Patria Finance, an independent Czech investment bank, covered a broad sample of 50 medium-sized companies with annual sales above Kc1bn and over Kc500m in equity capital. It deliberately excluded financial sector companies, utilities and those owned by foreign strategic investors.

Most of the companies were involved in the engineering, chemical and construction sectors. The sample group achieved average sales growth of 15 per cent and registered a 23 per cent average gain in net earnings in 1995.

Three-quarters of those sampled were planning investments beyond their own internal financing capacity. Companies in the pulp and paper, ceramics and glass sectors planned to invest most, followed by the construction and chemical sectors.

Significantly, however, companies in the engineering sector – traditionally the heart of the Czech economy – planned only small fixed investments and intended to finance most of it internally, mainly from depreciation provisions. Depreciation represents the main source of internal financing for most companies, while retained earnings were sufficient to finance only 19 per cent of investment.

This reflects the very low return on assets of the surveyed companies – only 2 per cent on average. Low returns largely reflect the way that most companies are still hanging on to non-productive assets inherited from the socialist past. Low returns on assets, combined with high interest charges on bank and other debt, is reflected in a low average return on equity of only 3.5 per cent.

This overall low level of profitability helps to explain why only 6 per cent of all Czech companies listed on the Prague stock exchange have declared dividends and why only 6 per cent trade above their nominal value. The bulk of listed companies trade at a deep discount to their nominal value. This means that 94 per cent of listed companies are unable to issue new shares without first reducing the registered capital value of their existing equity. This requires a complex accounting and legal process, the report notes.

Under the circumstances, it is little wonder that Czech companies are highly indebted. The average debt throughout the 50 companies sampled amounted to 43 per cent of total assets, with the highest levels of indebtedness in the engineering industry (58 per cent) followed by the construction sector (55).

The real debt burden is even higher than stated because lax Czech accounting standards allow companies to avoid writing off irrecoverable receivables and other obsolete or unproductive assets, the report adds.

To finance the investment needed to raise productivity and profitability, Czech companies need to be able to borrow for a much longer period than presently available to them. Only 24 per cent required short-term finance, while 35 per cent needed medium-term and 41 per cent wanted long-term funds. The survey showed that companies expected the average payback period on investment to be 6.2 years.

Despite the need for long-term capital, the survey found that nearly half the companies believed that existing shareholders would be unable to provide additional equity capital. Shareholders of over one-third of the companies questioned said an equity increase was unacceptable because it would lead to a dilution of their existing majority stake.

Most controlling shareholders were passive investors, more interested in being able to sell controlling blocks of shares at a premium than in taking an active role in corporate management, the report found.

This is reflected in a high turnover of owners. No less than 54 per cent of the companies surveyed were acquired by a new majority shareholder in the first six months of this year. "The most significant change in shareholder structure did not occur during government sponsored privatisations but during the first half of 1996 as a result of a 'third wave' of privatisation," the report concluded.

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■ **Foreign relations** • by Anthony Robinson

Waiting to join Nato's ranks

The 'quick and easy' way to modernise the armed forces has been rejected

Strong border fortifications and a good army backed by a powerful arms industry were not enough to stop Hitler invading Czechoslovakia without a shot being fired in 1938. Membership of the Warsaw Pact was no protection against a Moscow-inspired invasion to kill the "Prague Spring" and restore communist orthodoxy 30 years later.

Czechs and Slovaks learnt the hard way how diplomatic events and political circumstances beyond their control can determine the security of small states in central Europe. The profound desire to prevent a repetition of such traumatic events lies behind their application for integration into an enlarged European Union and full membership of Nato.

The current Brussels timetable puts Nato expansion before EU enlargement, and the pecking order puts Czech entry before that of Slovakia, although both countries were joined in a federal union before their "velvet divorce" in January 1993.

Petr Necas, the impressive young chairman of the Czech parliament's defence committee, notes the likely delay to Slovak entry – due to the authoritarian ways of Prime Minister Vladimir Mečiar – with regret. "It is in our national interest to have all our neighbours in the same alliance," he says.

But it is also clear that the Czech government attaches great importance to being counted among the early joiners of an enlarged Nato and has given much thought to both the practical and the financial implications.

"The joining processes for Nato and the EU are different," Mr Necas says. "Clear political will on both sides is the main element in Nato entry, while EU membership demands precise fulfilment of many legal and technical conditions."

The first demonstration of the then Czechoslovakia's political will came with wholesale dismissal of the Warsaw Pact-trained senior officer corps in 1989, along with a similar purge of the internal security units. This was originally accompanied by a decision to run down Czechoslovakia's large arms industry and virtually stop arms exports, a decision which hit Slovakia particularly hard as most of the heavy arms industry was situated in the eastern part of the former federal state.

Since then, the Czech and Slovak governments have taken a different line towards re-equipping their armed forces. Slovakia, along with Hungary, decided to accept Moscow's offer of new MiG-29 fighters and other modern equipment in return for the cancellation of Soviet-era debt. Prague refused what Mr Necas calls the "cheap and easy" way to modernise the Czech Republic's 60,000-strong armed forces. Instead, it has opted to re-equip with western equipment, albeit with the maximum possible offset agreements to ensure that future re-equipment is used to help modernise and integrate the Czech arms industry into the rapidly evolving world of the multinational arms industry.

"Our top priorities are to upgrade our command and control and communications systems," Mr Necas says. "We also need to buy three dimensional radar and new surface to air missiles. But we do not think it is a good idea to purchase new aircraft at present."

McDonnell-Douglas and Lockheed are among US arms contractors offering their wares, alongside Dassault, of France, and Saab, of Sweden. But the Czechs are thinking only of leasing a few aircraft in the first instance. "New fighters are only one of the pillars of our procurement strategy. First we have to train air and ground crews and build up our maintenance infrastructure. We will lease aircraft for training and will delay buying planes until early in the new century," Mr Necas explains.

The eventual choice will partly depend on the offset arrangements. One of the main aims will be to ensure a future role for Aero Vodochody, which produced trainers and light attack aircraft for Comecon and overseas markets such as Thailand and Egypt.

Aero Vodochody is awaiting an expected big government order for the new L-159 light attack and trainer aircraft which is expected to be the backbone of the Czech air force.

The 1997 budget earmarks Kc32bn for defence, around 2 per cent of GDP. But the government has pledged to raise this gradually by 0.1 per cent of rising GDP a year for the next four years so that by the start of the new century defence spending will be around 2.4 per cent of GDP, around the European average.

Re-equipment is only one of the claims on resources. The legacy of the Warsaw Pact past has left a heavy concentration of forces along the German and Austrian borders and an over-abundance of middle-ranking staff officers.

The aim is to form a more professional and mobile force, distributed more rationally around the country. But relocation is expensive, and finding suitable recruits in a country with low unemployment and high salaries for competent, multi-lingual professional people makes recruitment a headache.

Until now, the bulk of the armed forces has been made up of conscripts serving for 12 months. But 27,000 of the 60,000-strong defence force are ex-professionals. A batalion of 1,000 men is currently serving in the Nato-controlled Ifor peace implementation force in Bosnia.

"We are still debating whether to maintain a largely conscript force or go professional," Mr Necas says. "The decision will be a political one and will have to take future Nato requirements into account. We need better mobility and will take on a commitment to defend out future allies once we join Nato."

The debate is likely to favour continued conscription and a largely citizen army. But staying with conscription will also require big changes in the system. At present, the armed forces would only grow by a factor of three or four in case of mobilisation, compared with multiplication rates of eight in Norway and 11 in Finland.

■ **The Sudeten Question** • by Anthony Robinson

Confronting the past

Czechs have been less quick than Poles to discuss past grievances

The most difficult thing to forecast under communism is the past, according to the old joke in communist times. That was when former heroes became enemies of the people overnight, and people and events alike were simply written out of the history books or air-brushed out of the photographs as the ideological line shifted.

But as the Czech Republic and other former victims of Nazi and Soviet occupation prepare themselves for entry into Nato and the European Union, they are being forced to take a fresh look at painful episodes from the past and relations with their neighbours.

"What this country needs is a brutally honest debate about the past," argues Jiri Pehe, one of the country's most thoughtful political analysts. "People are still very provincial and intolerant, our political culture is confrontational and personal, politicians are often driven by intense personal hatreds, and there is an intolerance towards anything foreign, especially the gypsies," he adds.

Confronting the past means above all confronting the strong "victim mentality" of people who felt betrayed by Britain, France and the western powers at Munich in 1938. They watched helplessly as Hitler used the ethnic German minority in the Sudetenland to facilitate his conquest and division of the first Czechoslovak Republic, and then suffered 45 years of Soviet control which became even more heavy-handed after the Warsaw Pact invasion of 1968.

Czechs lacked the liberty to deal with the past while the Germans have had over 50 years to try to come to terms with their complicity and involvement in the Nazi period. But the Poles, simultaneously invaded by both Germans and Russians in 1939, have been quicker to engage in talks with both former enemies over past grievances.

The Russians finally admitted that the NKVD secret police, not the Nazis, had massacred thousands of Polish officers in Katyn forest. Willingness to confront this and similar issues helped raise the historically fraught Polish-Russian relationship to higher levels of mutual respect.

The first Solidarity government, led by Tadeusz Mazowiecki, also placed a high priority on resolving similar questions with Germany, prior to signing a Polish-German treaty with Chancellor Helmut Kohl.

The treaty guarantees Poland's western borders, which enclose large parts of the pre-war German provinces of Pomerania and Prussia from which millions were expelled or fled as the Red Army advanced. Plain-speaking helped to salve many wounds and paved the way for a sharp increase in German investment and tourism, although Poles still refuse to allow German citizens to buy land there.

The Czech Republic has been far slower to face up to similar traumatic questions. This is largely because Czechs continue to see themselves as victims with nothing to apologise for, Mr Pehe argues.

"What needs to be faced is the fact that many Czechs collaborated with the Nazis and the communists," he says. "The Czechoslovak Communist party, after all, had 1.7m members in 1989. But the main problem is that many Czechs simply do not see the forcible expulsion of over 3m Sudeten Germans from their homes and farms in 1945 as a moral issue which has to be faced."

The Czech Republic, divorced from Slovakia in 1993, is bounded on two sides by Germany and German-speaking Austria. Further north and east, the Polish border runs through parts of Silesia, which were also German-speaking before the war. In 1945, three years before the communist takeover in February 1948, the inhabitants of the villages which had hung out Nazi flags to greet Hitler's invasion in 1938, were forcibly expelled in the dead of winter and sent back to Germany in freight trains, trucks and on foot.

The ancient Market Square at Cheb, popular with visitors to the Sudetenland *From 50 Pictures from Bohemia and Moravia, by Dalibor Kusák*

Most of the 3m refugees settled in Bavaria, where they kept up their old traditions and organised themselves into a powerful political lobby. Their votes help to keep the Christian Social Union in power in Bavaria and tie the hands of Chancellor Kohl in Bonn. Many seek compensation for their lost homes and farms and an apology for their treatment at the hands of the Czech army and police half a century ago.

That apology is proving hard to extract. Mr Pehe is among those who argue that this is partly because those who were ridiculed as moralists and hopeless dreamers when the Civic Forum alliance which managed the "Velvet Revolution" split up in 1991 lost their power to influence events.

The pragmatists took over and imposed their values on society and on the economy. "They achieved macro-economic stability but paid little heed to corruption or enterprise reform, so the economy is also now a bit rotten inside," he adds. "The danger is that we could drift into the 21st century without any honest introspection and with democratic institutions without real content."

Whether this gloomy prognostication comes to pass could well hinge on whether the government summons up the political will to push ahead and reach agreement with Bonn on the wording of a long delayed Czech-German declaration.

The declaration, which Chancellor Kohl has said he would like to be able to sign before Christmas, would express German contrition for the invasion, occupation and demolition of the democratic Czechoslovak state in return for an apology from the Czech side for the human rights abuses suffered by the Sudeten Germans in the bitter aftermath of war.

The formal normalisation of relations between the Czech Republic and its powerful western neighbour would help to ease entry into the EU and Nato and underpin rapidly-expanding personal and economic ties between the two countries.

More than 100,000 Czech workers cross the border to work in Germany each day, and floods of German tourists travel in the opposite direction. Millions drive through the Sudetenland and wander around the many beautiful towns and cities of a country which was once the industrial heartland of the Hapsburg empire and has always had close cultural and economic links to the German-speaking part of Europe.

■ **Steel** • by Vincent Boland

Sales offer fresh start

A once-mighty industry comes to terms with the collapse of a customer base

Czechoslovakia was one of the steel centres of the steel-obsessed former Soviet bloc. By the end of the 1980s it was turning out 15m tons a year from five huge plants, one ton for every man, woman and child in the country. Disposing of it was never a problem: the Soviet Union had an insatiable appetite, while the local armaments industry also consumed great quantities.

Not surprisingly, the industry was among the hardest-hit when Comecon collapsed alongside communism. Russia could not afford to pay market prices, and suddenly had more than enough steel of its own as industrial and arms output plummetted. At the same time, the Czechoslovak arms industry went into terminal decline.

Today, the Czech Republic has three big, functioning steel plants – Vitkovice, Nova Hut and Trinec, all in northern Moravia, turning out 6m to 7m tons annually. A fourth, Poldi, near Prague, folded earlier this year after a disastrous privatisation. The old federation's fifth plant – VSZ in Kosice, Slovakia – is perhaps the entire region's most modern and aggressive producer after an astutely handled restructuring process under an innovative management team. This autumn, VSZ expanded its reach by buying 20 per cent of Trinec.

Now Vitkovice and Nova Hut are about to be given a *new lease of life. The government* is preparing to sell 18 per cent of each to private financial investors in an innovative privatisation process that also involves giving management an option to buy up to 15 per cent of each company in five years if certain fairly stringent conditions are met, including a doubling of their share price. In addition, Nova Hut is close to securing $400m in outside financing that, added to an additional $250m of internal resources, will pay for a massive restructuring programme which began this year and will continue to the end of the decade.

The programme has several aims, says Jan Svozil, the project manager. Its centrepiece is the construction of a new mini-mill at the plant, in Ostrava. ICF Kaiser, a US engineering company, has been selected to install the mill, which will increase production of sheet metal to 1m tons from 700,000 tons currently. Sheet metal accounts for up to 45 per cent of total European steel demand, and Nova Hut wants to capture a greater share of that market to compete with VSZ, its chief regional rival, and supply the fast-growing automobile and consumer durable markets.

The programme also involves another big reduction in emissions of pollutants. Any visitor to Ostrava *can testify to the foulness of* the air, though managers at both Nova Hut and Vitkovice insist it is cleaner than in Prague. Both companies say much progress has been made in cutting emissions of dust and gases to levels prescribed by the European Union.

About $250m of the investment programme at Nova Hut will come from the International Finance Corporation, another $100m from Czech banks, and the rest from internal company revenues, which amounted to Kc24.3bn in 1995. Vikas Thapar, director of the IFC's Czech office – which, ironically, is being scaled down following his appointment as the institution's Paris-based head of European operations – says the funding was proffered because of the IFC's belief that Nova Hut can *become "a competitive* long-term steel producer in this part of the world".

The IFC loan package is expected to be in place by the end of January. Because its charter forbids it from investing in projects where private investors do not have a *majority stake*, IFC involvement has forced moves to reduce state ownership at Nova Hut. The Czech National Property Fund, the state holding company, is currently choosing a lead manager for international offerings of 18 per cent of both that plant and Vitkovice. When these stakes are sold – the deadline is the end of June 1997 – state ownership of both will be reduced to 49 per cent.

To attract investor interest, the NPF has, unusually, *shown some imagination*. It is in the process of selling a 1 per cent stake in each company to management and giving them options over another 15 per cent, exercisable in five years' time at today's share price. This is a powerful incentive to executives to make their restructuring projects a success.

Their success is important for the overall health of the Czech economy, observers say. The country has a steelmaking tradition going back to the 16th century, when ore was discovered in the hills around Ostrava. In 1828, Rudolf Jan, Archbishop of Olomouc in central Moravia, built a smelter in what was then the village of Vitkovice. Archbishop Jan was a member of the Hapsburg family and owned ore mines in Sweden and coal mines in the Ostrava region. The *plant was bought in 1843 by* a branch of the Rothschild family, and it remained in their hands until it was seized by the Nazis in 1939.

Today, the village of Vitkovice has effectively become the town of Ostrava, home to 300,000 souls. In a *perfect* example of the communist-era concept of the "company town", the steel plant is situated right in the middle of the city. Its miles of pipelines, coal chutes and electrical wiring weave around Ostrava like the tentacles of an octopus, locking plant and town together in an embrace of mutual dependency. Nova Hut (literally, New Ironworks) was conceived in 1937 and building started under the Nazis. It was not finished until the early 1950s, when it became an *integral* part of the eastern bloc's steel industry

Just 5km apart, neither competes with the other in product range, but there is a sense of rivalry nonetheless. It was inevitable however, given their proximity, they would eventually be forced to co-operate. Vitkovice's blast furnaces, which are virtually on Ostrava's high street, are to be shut down so those operations will be concentrated on Nova Hut.

The notion of merging the two and further rationalising operations remains in the air. Jaroslav Dusilek, Vitkovice's finance director, says the idea was considered and discarded in 1990 and 1995. "The government felt a merger would be premature. It decided to let new owners decide that question eventually," he says. "A merger would seem to be a very logical move. It seems *strange* to have two separate companies just 5km from each other."

It is an issue that may eventually arise when both companies are more fully privatised. If executives at both companies succeed in implementing their restructuring proposals and get that share price to double, the state holding in each will be cut to 34 per cent by the end of 2000. By then Czech steelmakers should have a clearer idea of their future.

The country's steelmaking goes back four centuries

INTERVIEW **Zdenek Bakala**

'There are too many markets'

Zdenek Bakala, founder and chairman of the investment bank Patria Finance, laments the weaknesses of coupon privatisation and argues the case for a genuine equity culture. As co-head of CS First Boston in Prague from 1990 to 1994, he was in at the start of economic reforms and the birth of capital markets. Here he gives his views on progress so far, in an interview with Vincent Boland *and* Anthony Robinson

Q: What are the problems facing investors in the Czech capital markets?
A: For a start, there are too many markets. Trading takes place on the Prague stock exchange, the over-the counter market, the RM-System [a regional exchange for small investors], and the grey market.

There is not a single place where aggregate supply and demand are concentrated and where a price is determined that could be viewed as an objective market price.

But I would draw a distinction between the debt and equity markets. We have a small, growing and active debt market run by professionals. The problem is on the equity side. Voucher privatisation was an absolutely correct idea, but it was not executed in an optimal way – and actually prevented the creation of a proper equity market.

What are the consequences of that?

Companies are controlled by banks and therefore do not have access to debt under competitive conditions. At the same time, they are being prevented, explicitly or *implicitly*, from going to the market to raise fresh equity, which they desperately need. These two factors slow down economic growth.

What is the cost in terms of company profitability, market performance and the pace of industrial restructuring.
Every single business in this country needs a very severe and costly restructuring. But they don't have the capital or the motivation to do it. There are exceptions which have been extremely successful, however.

Skoda Auto [now part of Germany's Volkswagen] is a clear example of a company not subject to voucher privatisation and to this vague equity market. Here, the results are very different. Today, the company is thriving.

Your argument is that standard privatisation is proving to be more successful than voucher privatisation?
My argument is that standard privatisation, when compared to voucher privatisation which has not *been efficiently* executed, *is* more successful.

How can companies privatised through vouchers catch up?

In the near future there may be, by law, a loosening of the relationship between the financial and industrial sectors. So I don't necessarily think it is too late. Despite all the flaws there still is a rational and attractive business opportunity here.

The real difference is a time horizon difference. In this market, if you are a short-termer – a speculator – you can get rich very quickly. But in the process of getting rich you will have to perpetuate and cement the flaws of the system. That is the danger.

Perhaps it was right at the *beginning* to set up a loose system. This allowed assets to float around and find somebody who wanted to own or control them; it allowed for all the pent-up desires for money or power or whatever to be flushed through the system. But today it's time to step back and start thinking about the long term.

Zdenek Bakala

What does that require?
Above all, it requires political will. Then it will be relatively easy and quick *for legislative* changes to be enacted, for institutions to *be reformed to fit* in with the world. An oversight commission must be created that is responsible to parliament and not to the executive arm of the government.

It must have the authority and the funding to enforce the law. The revolution is over. We just have to start doing things the way the rest of the world is doing them. The debate around privatisation of the banking sector will force this issue and will show the advantages of western-style privatisation.

How widespread do you think fraud is in the wider financial market, and to what extent is this responsible for the problems in the banking sector?
The question is, what is *fraud? I don't believe the* majority of individual bank problems has been caused by criminal actions under Czech law. One could argue that certain things have been done here that would be illegal elsewhere. There are loose legal guidelines that can be taken advantage of. But a body of law cannot be created overnight.

Is there a moral vacuum, or a lack of clear legislation?
I think it is more a lack of historical experience. For example, the concept of fiduciary responsibility, of a higher standard of responsibility than in normal commercial contracts, doesn't exist. That is the problem, not somebody embezzling 25 billion crowns and disappearing. The problem is the little inefficiencies, the small degradation of the value of assets given to the public, to the beneficiaries of voucher privatisation. If somebody steals money, fine, let's have the police look for him and let's see if we can find a law under which he can be prosecuted. In most cases we will not be able to do so, but that is not the problem. The problem is the lack of standards which allows the system to function without giving full benefit to the owners of assets.

It seems the political tide has turned somewhat. How does it look to you?
The electorate was curious [in June]. In a way it [the dominance of the Klaus government to June] was boring. However, the Social Democrats failed to take advantage, and the senate election has shown the result.

Do you think the mandate gives to the senate, and by extension to the government, is somehow unconvincing because so few voted?
I don't believe so. A year from now nobody will remember the turnout.

Will the result give the prime minister the bounce he needs to get the government back on track?
I think so. With a clear mandate in the senate the coalition will be strengthened.

CASE STUDY **Consumer spending**

Shopping for a bright Christmas

When Mr and Mrs Novak go shopping this Christmas, they may find that their favourite shops have moved. This year has seen an acceleration in the growth of that very American phenomenon, the shopping mall, right in the heart of central Europe. It is changing the way Czechs do their shopping, and it looks as if it is here to stay.

So far this year three new shopping centres have opened within spending distance of each other on Na Prikope, the central Prague street that is already the *financial centre of the Czech* Republic – it houses the central bank and the headquarters of four of the country's biggest banks – and is fast becoming the capital's entertainment and commercial hub.

Marks and Spencer, the UK high street retailer, opened its doors there in October, the key tenant in the new French-built Myslbek shopping and office complex that has dismayed architectural purists but provided some much-needed serviced office and retail space in the crowded centre of Prague's busy Old Town.

At the corner of Na Prikope and Wenceslas Square, the Koruna Palace, a magnificent pile dating from the 1910s, has also been converted into shopping and office areas. This building is now home to the nation's first Dunkin Donuts as well as its first megastore – two floors of CDs, videos, hi-fi and bars developed by Bonton, an expanding entertainment company headed by Martin Kratochvil, sometimes dubbed the Richard Branson of the Czech Republic.

Further up on Wenceslas Square lies the Darex building, a new office and shopping complex hidden behind the art deco facade of the original building that was demolished to make way for it.

Out-of-town malls are also cropping up. Ikea, the Swedish supplier of home furnishings, is developing a huge mall on the city's outskirts, while another is taking shape in a suburb on the opposite side.

Some retailers say that what attracts them to the Czech Republic is relatively high levels of disposable income. While local shopping habits still tend towards the somewhat dowdy and customer service is poor, there is growing evidence that consumers are increasingly prepared to spend money rather than save it. One reason why the Czech trade deficit is high is because an ever-increasing number of people are buying imported luxury consumer goods such as cars, hi-fi equipment, jewellery and clothing, economists say.

The average industrial wage grew by nearly 10 per cent in real terms in the first *half of this year, according* to the central bank, even though gross pay, at just under Kc10,000 a month, is still relatively modest. Nevertheless, the average Prague-based worker earns up to Kc2,000 more than his or her counterpart outside the capital, while incomes in the fast-growing financial services sector, heavily oriented towards Prague, are generally higher than in other areas of industry.

That has not stopped braver pioneers, who are helping to change the face of Czech shopping. One consequence of the new fad for *shopping centres is that it* represents a shift away from the traditional concept of the *"pasaž"* or passageway off the main streets. These hidden spaces, some spectacularly beautiful, others run-down, are where most shops are still to be found.

While the Myslbek development retains many of the aspects of a *pasaž*, the Koruna Palace is a definite change – a shopping centre on four floors. When Mr and Mrs Novak go shopping this Christmas, they are very likely to be spotted riding the escalators.

Vincent Boland